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Commissioner	:	<u>John Bohn</u>
Admin. Law Judge	:	<u>Kirk McKenzie</u>
DRA Project Mgr.	:	<u>Victor Chan</u>
Witness	:	<u>Mehboob Aslam</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE
GENERAL OFFICE AND REGION II
HEADQUARTER
OF
GOLDEN STATE WATER COMPANY
FOR
Test Year 2007 and Escalation Years 2008 and 2009
Application 06-02-023**

San Francisco, California
May 25, 2006

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1 **MEMORANDUM**

2 In this Report, the Division of Ratepayer Advocates (DRA) of the California
3 Public Utilities Commission (Commission) presents its analyses, findings, and
4 recommendations pertaining to the General Office of Golden State Water Company
5 (GSWC), general rate case (GRC) Application (A.) 06-02-023. GSWC is requesting
6 the Commission's authorization to increase rates charged for water service in
7 2007 by \$14,926,200, an increase of 15.77% over present rates; in 2008 by
8 \$4,746,000, an increase of 4.31%; and in 2009 by \$6,909,300, an increase of
9 6.02%.

10 The DRA witness for this report is Mehboob Aslam. Victor Chan is the
11 Project Coordinator for this rate case. The DRA witnesses' qualifications are set
12 forth in Appendix A of this Report, and Cleveland Lee is DRA's Legal Counsel
13 for this proceeding.

EXECUTIVE SUMMARY

I. INTRODUCTION

This report presents DRA's analyses and recommendations regarding the GSWC General Office Operation & Maintenance (O&M) and Administration & General (A&G) expenses; and the GSWC's Cost Allocation Study and Overhead Distribution Methodology. Chapter 6 of this report provides DRA's recommendation for plant additions and allocation relating to Region II's Headquarter.

GSWC presently owns and operates water systems in sixteen operating districts throughout California, and an electrical system in and around Big Bear Lake, California. In addition to its regulatory operations, GSWC also provides various O&M and customer related services to Non-regulated entities throughout U.S. in collaboration with an affiliate, the American States Utility Services (ASUS).

GSWC performs the following functions at its General Office location: Administration, Accounting, Centralized Customers Service, Risk Management, Employee Development, Finance, Human Resources, Information Systems, Water Quality, and Regulatory Affairs.

I. SUMMARY

GSWC is requesting an overall General Office expense of \$42,251,661 in the Test Year 2007. In addition, GSWC is requesting a total of \$15,922,119 of these General Office expenses as an allocation toward its Region-II. After careful deliberations and evaluation of GSWC's request, DRA recommends an overall General Office expense of \$27,772,405, in the Test Year and an allocation to Region-II in the amount of \$8,734,523.

GSWC is requesting a capital expenditure of \$5,837,100 in the Test Year 2007 and \$4,627,000 in the Attrition Year 2008. DRA instead recommends a capital expenditure of \$1,281,317 in the Test Year 2007 and \$373,717 in the

1 Attrition Year 2008. In addition, GSWC requests a Weighted Average Ratebase of
2 \$21,894,945 in the Test Year 2007 and \$24,703,791 in the Second Test Year 2008.
3 DRA instead recommends a Weighted Average Ratebase of \$9,726,808 in the Test
4 Year 2007 and \$8,600,323 in the Second Test Year 2008.

5 In its Cost Allocation Study, for the Test Year, GSWC requests an
6 allocation of General Office expenses in the amount of \$1,356,278 at the rate of
7 3.21% to its out-of-state business, Chaparral City Water Company (CCWC),
8 located in Arizona; \$4,098,417 at the rate of 9.70% to its Bear Valley Electric
9 (BVE) which is the GSWC's California based Electric Division; and \$988,689 at
10 the rate of 2.34% to one of its affiliates, ASUS, through which the GSWC handles
11 most of its Non-regulated businesses. DRA recommends an allocation of General
12 Office expenses in the amount of \$1,110,506 at the rate of 3.65% to CCWC; the
13 amount of \$2,443,197 at the rate of 8.03% to BVE; and the amount of \$5,544,324,
14 at the rate of 18.21% to its affiliate, ASUS.

15 Similarly, for the Test Year, GSWC requests allocations of the General
16 Office ratebase in the amount of \$702,827 at the rate of 3.21% to CCWC; the
17 amount of \$2,123,813 at the rate of 9.70 % to BVE and the amount of \$512,341 at
18 the rate of 2.34% to its affiliate, ASUS. DRA recommends allocations of General
19 Office ratebase in the amount of \$354,799 at the rate of 3.56% to CCWC; and the
20 amount of \$780,585 at the rate of 8.03% to BVE; and the amount of \$1,771,374 at
21 the rate of 18.21% to the GSWC's affiliate, ASUS for the purpose of Non-
22 regulated businesses.

23 As for the GSWC Overhead Rate Study, both the GSWC and DRA agree
24 on the basic principle in the calculation. For example, the capitalized amount
25 booked in the Overhead Pool must be divided by the amount of capital budget in a
26 particular year to determine the overhead rate. However, GSWC and DRA differ
27 in their estimates and make up of capitalized expenses to be booked in the
28 Overhead Pool and the amount of capital expenditures in the Test Year and
29 Attrition Year, which yield different Overhead Rates. GSWC requests an overall

- 1 Overhead Rate of 24.89% in the Test Year 2007 and the rate of 22.09% in the
- 2 Attrition year 2008. DRA recommends an overall Overhead Rate of 10.87% in the
- 3 Test Year 2007, and the rate of 6.37% in the Attrition Year 2008.

CHAPTER 1: GENERAL OFFICES REVENUE

GSWC requested an amount of \$170,328 in the Test Year whereas DRA recommends an amount of \$253,249.

GSWC claims collecting these revenues in exchange for services provided to various cities that are located in its service area. At the request of the cities, GSWC bills the customers on behalf of the cities for non-water services, mainly sewer and trash, and includes them in the GSWC customer water bill during the normal billing process. GSWC charges these cities a fee for billing on their behalf and claims these revenues should be included in the General Office to reduce the expenses that are used for ratemaking purposes.

It is obvious that GSWC uses General Office resources for billing on behalf of the cities, such as printing, IT resources, accounting, and personnel time. However, because GSWC includes all of the revenues in General Office, DRA does not regard the costs associated with billing services for the cities as the part of the Cost Allocation Study. The appropriate ratemaking treatment of these associated costs should be determined by DRA's pending audit. In the interim, DRA assigns the revenues to the ratepayers, because some of the General Office resources are used to generate these revenues.

On the other hand, GSWC adjusted and excluded some of the revenues collected from its Non-regulated contracts that were signed by its affiliate, ASUS. DRA will address the GSWC Cost Allocation Study later in this chapter. However, based on the fact that ASUS collects certain revenues in the name of the ratepayers, DRA recommends including such revenues.

For example, according to the ASUS contract with the City of Torrance, the terms of compensation are:

California Public Utilities Commission Pass-Through:

In addition to monthly fee set forth, the City agrees to pay the Company an allocated share of the amount of revenue require ("the pass-through") to be allocated to

1 the customers of Southern California Water Company,
2 a California corporation ("SCWC"), by the California
3 Public Utilities Commission ("CPUC") as
4 compensation for providing Customer Service to the
5 City. The amount of this pass-through on the Effective
6 Date is 10.00% of total compensation paid to the
7 Company or any of its unregulated subsidiaries for
8 providing utility billing services. The CPUC pass-
9 through shall be adjusted as follows:

- 10
11 (1) Should the CPUC make a determination that the
12 pass through amount should be different than
13 10% or the CPUC pass-through is determined
14 on a different basis, then the CPUC pass-
15 through shall be adjusted on the effective date
16 of such determination to an allocated share of
17 the amount determined by the CPUC.
18

19 The above excerpt shows that ASUS is currently collecting additional 10%
20 revenues above those that it collects in return of its services in the name of
21 ratepayers.

22 DRA believes that the question of cost allocation should deal only with the
23 appropriate level of costs that GSWC incurs to provide services to Non-regulated
24 businesses while using resources paid and supported by the ratepayers. In this
25 case, the ASUS is collecting specific revenue as a Commission pass-through that
26 is in addition to the monthly fee it collects from the contracts, but none of these
27 revenues are used to benefit the ratepayers. Therefore, DRA recommends
28 including all such revenues in the General Office.

CHAPTER 2: GENERAL OFFICE EXPENSES

GSWC's General office expenses are divided into two major categories of O&M and A&G expenses. Generally, GSWC averaged the last two years of recorded expenses to estimate its Test Year expenses. In addition, GSWC used January-2005 escalation data issued by Global Insight U.S. Economic Outlook which was adopted by the Commission in its monthly memorandum of escalation factors, dated January 31, 2006. DRA used GSWC's last five years of recorded expense data and different trending methodologies to estimate the future values based upon a prevalent trend. In addition, DRA used the February-2006 escalation data issued by Global Insight U.S. Economic Outlook which Commission adopted in a monthly memorandum of escalation factors, dated February 28, 2006. Details of DRA's analyses, conclusions, and recommendations regarding GSWC's General Office expenses are discussed below.

A. Common Customer Account

GSWC requested an amount of \$671,400 in the Test Year 2007 whereas DRA recommends an amount of \$371,064.

The Common Customer Account is comprised of three expense categories: i.e., Customer Service Labor, Equipment Rental, and Billing Supplies. DRA removed the Customer Service Labor amount of \$247,921 that GSWC currently books under this category without sufficient justification or any apparent record keeping advantage. DRA believes that the salary of these employees should be included in O&M and/or A&G along with other General office employees' salaries. Therefore, DRA included these labor expenses into the overall labor expense of the General Office.

In addition, GSWC escalated the expenses from 2005 to 2007 for currently leased equipment. However, GSWC failed to show how often such leases are renewed and what criteria are utilized for renewals. The company also failed to

1 indicate the frequency its leases are adjusted. DRA rejected GSWC's escalations
2 of lease expenses because of the lack of support for them.

3 **B. Postage**

4 GSWC requested \$769,000 for Postage Expenses in the Test year 2007
5 whereas DRA recommends \$751,390.

6 GSWC's methodology was to adjust upward last year's 2005 postage
7 expenses by an expected increase in the number of customers and postage rate.
8 However, GSWC and DRA differ in their calculations of the GSWC Composite
9 Postage pre/sort Rate which determines postage frequency for GSWC customers.
10 GSWC used five months of data from November 2005 to March 2006. DRA used
11 only three months of data from January 2006 to March 2006, because the new
12 postage rate of 39 cents was implemented in January 2006.

13 In addition, GSWC escalated the projected cost per customer from 2005 to
14 2007. DRA did not escalate the projected cost per customers in subsequent years
15 because the future increase of customers is already taken into account when
16 estimating projected cost per customer.

17 **C. Operation and A&G Labor Expenses**

18 For the Test Year 2007, GSWC presented two categories of total labor
19 costs: (i) Operation Labor and (ii) A&G Labor. GSWC requested \$2,232,713 in
20 Operation Labor expenses and \$7,915,051 in A&G Labor expenses. DRA instead
21 recommends \$1,549,625 for Operation Labor expenses and \$5,493,478 for A&G
22 Labor expenses for the Test Year.

23 DRA's recommendations are based on a disallowance of several GSWC
24 request for new hires. GSWC currently is requesting 25 new positions in its
25 General Office. The following sections analyze and discuss DRA's
26 recommendations for these positions:

1 **1. Senior Vice President- Operations**

2 According to GSWC, this new position was created in October 2002.
3 However, only in this 2006 proceeding is the Commission presented with the
4 opportunity to evaluate the reasonableness of this position. Further, even though
5 GSWC did not request this position in its 2002 General Rate Case (GRC)
6 application, A. 02-11-007, the Commission in D. 04-03-039 indicates that the
7 recorded end of year 2002 labor expenses are taken into account for ratemaking
8 purposes.

9 Therefore according to D. 04-03-039, this new position with an annual
10 salary of \$209,000 has already been taken into account because the Commission
11 was not given an adequate opportunity to evaluate the reasonableness of this
12 position in prior years GSWC is now presenting its request for this position.

13 GSWC argues that the current complexity in Water Quality Compliance,
14 Water Quality Litigation, Infrastructure Replacement & Investment, Water Supply
15 Needs, and Sarbanes-Oxley Act, warrant this new position. Furthermore before
16 the creation of this position in 2002, the GSWC service area regions were
17 managed by the Vice President- Customer Service. Now, the GSWC's operations
18 are spread among three regions, each serving between 55,000 to 100,000
19 customers and each having a regional vice president who report to the Senior Vice
20 President-Operations.

21 DRA does not find the justifications for the position compelling. First,
22 GSWC's operations have generally remained the same over the years. The so-
23 called "Water Quality Compliance" functions are nothing new for a water utility
24 operating in California. GSWC already has a Water Quality Department and a
25 Regulatory Compliance Department, each of which is adequately staffed and has
26 its own vice president. These facts militate against the need to add yet another
27 management layer in the GSWC's organizational structure.

28 Within its General Office, GSWC's present Water Quality structure
29 consists of:

- 1 1- Vice President ---Water Quality
- 2 2-Environmental Specialist
- 3 3-Prventive Maintenance Manager
- 4 4-Assistant Support Analyst.

5 In addition, each Operating Region has its own Water Quality Manager and
6 each District within each Region has its own Water Quality Engineer and several
7 Water Quality Technicians.

8 On the Regulatory Compliance side, GSWC currently has a Senior Vice
9 President-Administration and a Vice President-Regulatory Affairs, each of whom
10 participates in regulatory issues concerning water quality and ratemaking.

11 Further, GSWC has an adequate engineering staff to administer and
12 supervise its Infrastructure Replacement and Investment needs. Historically,
13 because GSWC decentralized its engineering operations, GSWC now has an
14 elaborate engineering staff within each of its three Operating Regions. A typical
15 engineering staff at one of the GSWC's regions consists of:

- 16 1- Engineering and Planning Manager
- 17 2- Senior Civil Engineer
- 18 3- Civil Engineer
- 19 4- Engineer
- 20 5- Several Engineering Technicians
- 21 6- Several Computer Aided-Design (CAD)Operators

22 By requesting this executive level position, GSWC in effect is
23 implementing a "centralized" approach to its operations. However, GSCW does
24 not show any savings that should result from this centralized structure. In fact, the
25 ratepayers will be burden with both the decentralized and centralized structure
26 working at the same time.

27 And lastly, the 2002 Sarbanes-Oxley Act does not justify any need for the
28 position of a Senior Vice President- Operations. That Act pertains to GSWC's
29 legal responsibility to assure the soundness of its financial statements and internal

1 controls. In 2003 and 2004, GSWC hired an outside consulting firm, Jefferson
2 Wells International, to assess the company's compliance with the Sarbanes-Oxley
3 Act. GSWC has presented no such assessment as showing any "material
4 weakness" in GSWC's internal controls relating to capital budgeting and
5 contracting process. Evidently, GSWC's existing management infrastructure has
6 adequately performed these functions. GSWC failed to prove otherwise.

7 GSWC's existing managerial structure is sufficient and capable of
8 providing guidance, direction, and oversight to Water Quality and Engineering
9 related operations. The requested position of Senior Vice President-Operations
10 would be superfluous. Therefore, DRA recommends disallowing this position.

11 **2. Administrative Secretary-Operations**

12 GSWC is requesting to divide the salary for this existing Administrative
13 Secretary-Operations position between the new position of Senior Vice President-
14 Operations in General Office and the Vice President-Customer Service in
15 Region-I. However, if the Commission accepts and adopts DRA's
16 recommendation to disallow the position of Senior Vice President-Operations,
17 there will be no need to split the salary of this administrative staff.

18 **3. Capital Project Manager**

19 GSWC is requesting a new Capital Project Manager position with an
20 annual salary of \$124,160 in the General Office where GSWC has created a new
21 Operations Department. GSWC argues that the Capital Projects Manager is
22 needed to bring organization and cohesiveness to its capital program that currently
23 lacks central oversight.

24 DRA finds GSWC's argument unpersuasive. Instead, GSWC's proposal
25 reflects a level of inefficiency and lack of planning on the behalf of GSWC. As
26 mentioned earlier, GSWC decentralized its Engineering Operations throughout its
27 three Operating Regions, which resulted in an elaborate Engineering staff within
28 each Operating Region. For example, a typical engineering staff at one of the

1 GSWC's regions consists of Engineering and Planning Manager, Senior Civil
2 Engineer, Civil Engineer, Engineer, and several Engineer Technicians and CAD
3 Operators. GSWC claim that the company's engineering staff in each of its
4 Operating Regions has to compete for the same resources of contractors and
5 outside consultants for their respective projects hold no water.

6 First, the Southern California's water utility market is quite vast and several
7 other Class-A water utilities are also operating within the same constraints and
8 competing for outside labor resources. Better planning and self reliance are
9 necessary in this labor competitive environment. GSWC's proposal to add a
10 Capital Project Manager Position reflects poorly on the GSWC's the capabilities
11 of the existing Engineering staff.

12 Second, if GSWC now wants to switch to "centralized" management then it
13 has to show the savings realized from removing the extra costs of decentralized
14 operations. For example, GSWC has to remove several tiers of existing
15 Engineering Operations in each of its Operating Regions. On the other hand,
16 GSWC recently increased its reliance on outside consultants to design and
17 construct its facilities, thus further burdening the ratepayers.

18 DRA questions what GSWC's Engineering Staff does on its own, which
19 must be more than running day-to-day operations. GSWC needs to become more
20 self-reliant and make full use of its internal Engineering Resources. Ratepayers
21 should not have to bear the burdens of GSWC having both centralized and
22 decentralized operations. Therefore, DRA recommends disallowing the position
23 of Capital Projects Manager.

24 **4. Administrative Support Analyst- Operations**

25 GSWC is requesting a new position, Administrative Support Analyst-
26 Operations with the annual salary of \$58,208 in its newly formed Department of
27 Operations in the General Office.

28 As DRA discussed above regarding the requested Capital Project Manager
29 position, GSWC failed to justify the need for such reorganization and failed to

1 show any cost savings that would result from such centralization. This position
2 should also be disallowed.

3 **5. Assistant Application Support Analyst-**
4 **Operations**

5 GSWC is requesting this new position, Assistant Application Support
6 Analyst with the annual salary of \$50,189, in its newly formed Department of
7 Operations in the General Office.

8 As DRA discussed above regarding the requested Capital Project Manager
9 position, GSWC failed to justify the need for such reorganization and failed to
10 show any cost savings that would result from such centralization. This position
11 should also be disallowed.

12 **6. General Clerk –Information System (IS)**

13 GSWC is requesting a new position of a General Clerk-IS with an annual
14 salary of \$30,000 in General Office.

15 GSWC claims that the workload has increased in the general clerk area due
16 to added mail handling for check processing, carrier route mail postage discounts,
17 as well as processing electronic bill payments from banks and internet payment
18 providers.

19 Currently a staff of 19 is employed within the GSWC's Information System
20 Department in General Office. Five of them are General Clerks. In addition,
21 GSWC regularly hires temporary workers as needed. GSWC did not present any
22 analyses that explained the reasons behind the increased level of activities in mail
23 room.

24 One possibility could be an increase of customers. However, GSWC
25 experienced more increase in the number of non-regulated customers than in its
26 regulated ratepayers over the years. For example, on average, GSWC' number of
27 water ratepayers has increased 1,592 annually over the last five years. This is an
28 increase of 7,960 new customers over the last five year period. However, GSWC
29 added approximately 127,000 billing customers (per GSWC's 2004 Annual

Report) for the same period of time. At least 74,270 or 58% of them are billing and customer service related customers. According to the job descriptions of General Clerk, this position is responsible for variety of clerical tasks in support of business units that may include billing, customer service, accounting, payroll, personnel, mail services etc. These are the same typical services that GSWC provides in serving 74,270 of its Non-regulated business customers.

GSWC failed to justify that the need for a new General Clerk position arises from its regulated water related operations and how it will benefit California ratepayers. Therefore, DRA recommends disallowing the position of General Clerk- IS.

7. Assistant IT Manager

GSWC is requesting a new position of an Assistant IT Manager with an annual salary of \$88,564 in General Office.

GSWC claims that it currently has no one who can ensure the accuracy and security of its database. However, GSWC inconsistently states that the new Assistant IT Manager position will assist the existing IT Manager in maintaining the accuracy and security of data, software, hardware, and database.

GSWC currently has a staff of 19 employees in its Information System Department, 14 of whom are IT related staff which consists of:

- 1- IT Manager
- 2- Network Services Supervisor
- 3- Senior Network Services Administrator
- 4- Network Administrator
- 5- Two Associate Network Administrators
- 6- Two Senior System Programmers
- 7- Computer System Supervisor
- 8- Two Computer Operators
- 9- Two Help-line Specialists

1 In addition, from its contract services and licensing GSWC obtains IT
2 related help on regular basis from outside consultants and vendors. With such a
3 robust IT Department and reliance on outside consultants, the requested new
4 position does not appear justified.

5 GSWC also claims that at least 33% of this requested position's job
6 functions would be related to Sarbanes-Oxley compliance. However, DRA found
7 no data to support such a claim. Further, GSWC failed to show that the existing IT
8 staff is not capable of performing this compliance function. No data was provided
9 to corroborate how the Sarbanes-Oxley compliance needs warranted this new
10 position. Therefore, DRA recommends disallowing the position of Assistant IT
11 Manager.

12 **8. New System Administrator/Developer**

13 GSWC is requesting a new position of a System Administrator/Developer
14 with an annual salary of \$68,307 in General Office.

15 GSWC's claims that with the installation of a new Customer Information
16 System (CIS)/Customers Relationship Management (CRM) System, this position
17 is needed to assist in report writing, customization and modification of the
18 programs. However, the Commission has not yet approved and authorized the
19 CIS/CRM System projects. This requested new position is therefore unnecessary
20 until the CIS/CRM System projects is authorized by the Commission

21 **9. Customer Service Representatives (3)**

22 GSWC is requesting three new Customers Service Representatives (CSRs)
23 positions in General Office, for which the annual salaries would total to \$109,047.

24 GSWC claims that its call volume has increased over the years while its
25 current number of its Customer Service Representatives has not changed since
26 2002. According to GSWC the increase in call volume is caused by the increase
27 of customers and because customers are asking more detailed questions regarding

1 their bills which in turn have increased the average talk time/after call work per
2 call.

3 DRA finds GSWC's argument quite interesting, given the fact that the
4 number of its Non-regulated customers has increased more than its Regulated
5 customers in California. As discussed earlier, on average GSWC's number of
6 regulated water ratepayers has increased 1,592 annually over the last five years
7 (per GSWC's workpapers: GO-SOE). By contrast, over the same time period the
8 number of Non-regulated customers increased by approximately 18,567 (74,270/4)
9 per year. Therefore, it is appears that the demand for Customer Service
10 Representatives is due to GSWC's involvement in providing Customers Service
11 Center related services to its Non-regulated customers.

12 Further, GSWC historically did not request new CSRs when there were no
13 Non-regulated contracts. For example, in year 1998, GSWC had 16 CSRs that
14 served a total of 241,491 regulated customers. This represented a ratio of one
15 CSR to 15,093 customers. However, in that year, GSWC did not request
16 additional CSRs in it GRC application, thus implying that the ratio of 1:15,093
17 was working well.

18 In year 2002 when GSWC was serving 248,776 regulated customers, it
19 requested 5 additional CSR positions in General Office, raising the total CSR
20 positions to 21, which results in a ratio of one CSR to 11,846 regulated customers
21 when at that time GSWC began serving Non-regulated customers. Therefore,
22 applying the ratio of 1:15,093 for CSRs staffing to the present number of regulated
23 customers, only a total of 18 CSRs would be necessary.

24 In addition, GSWC's use of temporary CSRs is unreasonably high. Over
25 the last five year from 2001 to 2005, this cost has increased from \$84,150 to
26 \$206,829, an increase of 146%. As DRA's analysis shows, GSWC's existing staff
27 of 21 CSRs is sufficient to deal with the existing number of its regulated
28 customers. The use of temporary labor in Customer Service area is most likely
29 due to the significant increase in GSWC's non-regulated activities. DRA

1 recommends that in future GSWC must justify the need of its use of temporary
2 labor in General Office.

3 GSWC has demonstrated that the average Talk time/After call Work per
4 call has only increased from slightly from 2.52 minutes in 2002 to 2.59 minutes in
5 2005, a total of 4% increase. As discussed earlier that the ideal number of CSRs
6 for the current level of number of regulated customers is 18, however, with this
7 slight increase in Talk time/After Call Work per call, DRA recommends to
8 maintain the current number of CSRs in General Office i.e. 21. Therefore, DRA
9 recommends disallowing the positions of three additional CSRs.

10 **10. Call Center Support Analyst**

11 GSWC is requesting a position of Call Center Support Analyst with an
12 annual salary of \$47,101 in General Office. GSWC argues that this new position is
13 needed to centralize the scheduling process within the Customer Service Center
14 and will facilitate the recording of informal customer complaints.

15 Currently, GSWC has a staff of 30 employees within its Customer Service
16 Department, of whom 21 are CSRs, and 2 are Customers Service Center
17 supervisors, and 1 is a Call Center Support Analyst. The Customer Call Centers
18 also has its own Manager and Office Assistant. Therefore, GSWC currently has
19 sufficient supervision to effectively and efficiently handle the scheduling task of
20 21 CSRs.

21 In addition, the already existing position of Call Center Support Analyst
22 was previously included as part of GSWC's labor expenses in a previous request
23 during 2002. At that time, GSWC did not justify the need for the position. The
24 salary expense for the position was hidden as part of the overall labor expense.
25 DRA protests this sort of evasiveness. GSWC must present and justify all
26 additional expenses clearly and specifically.

27 The Commission's approval of an overall labor expense should not be
28 interpreted as Commission approval for new positions, especially when the new

positions are not specifically requested. This elusiveness deprives DRA of fair notice and due process and obstructs the Commission's ratemaking responsibilities

At the current level of activity in GSWC's Customer Service Center, DRA believes that at least one position is justified, but the new Call Center Support Analyst position should be disallowed.

11. Application Support Manager

GSWC is requesting a new position of Application Support Manager with an annual salary of \$113,883 in General Office. GSWC argues that presently major application software selections and upgrading are located in functional areas. For example, the customer service application software was selected and has been maintained by the Customer Service Center. According to GSWC, this new position will be a centralized position that will enhance the consistency and documentation for all application implementations and upgrades.

It is obvious that a duplication of Application Support functions exist in each major functional area. The new Application Support Manager position will not replace the existing functional area application support resources. The ratepayers will have to bear unnecessary rate burdens because of GSWC having functions duplicated at the centralized and decentralized levels.

Further, GSWC's work papers still include this position within its Customer Service Department, instead of in the Information Technology Department. Even GSWC appears confused about the role of the requested new position.

The present IT Department appears sufficiently staffed to provide the centralized support needed by each functional area. In addition, the existing decentralized approach to have IT capabilities at the functional level is also serving the GSWC well. Further, as DRA observed GSWC is incurring a significant amount of expenses for professional help from outside vendors who provide hardware and software resources to the functional areas throughout the

1 company. Therefore, DRA recommends disallowing the position of Application
2 Support Manager.

3 **12. Support Analyst – Employee Development** 4 **University (EDU)**

5 GSWC is requesting a new position of Support Analyst with an annual
6 salary of \$54,241 in General Office. GSWC argues that since the EDU's inception
7 in 1992, the department has expanded its administrative activities to include
8 managing a comprehensive database with employee information for requisite
9 safety, annual training activities, tuition reimbursement program, outside vendor
10 training, and most recently, employee's operations certification records for the
11 California Department of Health Service. According to GSWC, with the increased
12 workload on the database activities, EDU needs a new position of Support
13 Analyst.

14 After carefully analyzing the functionality and claimed benefits of the
15 EDU, DRA finds of the EDU in-house training functions are not a core
16 competency of the utility. It is more economical and more efficient to leave such
17 employee training to professional organizations whose core competency is to
18 educate and train a workforce.

19 Given the fact that GSWC is the only Class-A water utility in the State of
20 California that has an in-house university, DRA believes that the Commission
21 must carefully weigh the purpose and associated costs and benefits of this
22 function.

23 It will be helpful to discuss the background that lead to the formation of
24 EDU at GSWC. During its review of the 1991 GRC Application, A.91-02-096, of
25 the Southern California Water Company (now known as Golden State Water
26 Company), the Water Utilities Branch of the Commission Advisory and
27 Compliance Division criticized and objected to GSWC's culture of "constant
28 reorganizing." The Water Utility Branch recommended a management audit.

1 In 1993 an outside management consulting firm, Barrington- Wellesley
2 Group, Inc., conducted the management audit. The auditor made 114
3 recommendations, ranging from the simple to the complex. The final draft of the
4 report stated:

5 “We believe that the recommendations will provide
6 benefits and savings to the Company and its customers
7 well in excess of the cost of their implementation, Of
8 course, the appropriateness and cost effectiveness of
9 any recommendation must be justified to the
10 satisfaction of the CPUC before any of the costs of
11 implementation can be passed on to the ratepayers.”
12 (Exhibit 11, Management Audit, Final Draft Report, p.
13 I-5)

14 In response to the audit, the company prepared a plan of “Service
15 Excellence” intended to implement most of the 114 recommendations of the
16 consultant. On June 8, 1994, the company filed GRC application A.94-06-015 and
17 presented six projects to implement some of the 114 recommendations of the
18 audit. One of these six recommendations concerned the development of formal
19 employee training program:

20 “...Development a formal employee training program.
21 Capital cost \$87,000; expenses \$744,000. Gross
22 revenue requirement: \$754,000”

23 Most recently in 2005, the recorded operating expenses for EDU were
24 \$945,142, and capital expenditures of \$250,430 were recorded. Over the last ten
25 years from 1996 to 2005, a total cost of \$6,438,109 was incurred for EDU
26 operations and capital expenditures. The annual cost is still growing.

27 GSWC’s originally had an Employee Development Department (EDD)
28 within its Human Resources Department. The EDD was supervised by a
29 Manager-Employee Development who was responsible for conducting training
30 needs assessment, designing and conducting in-house training programs,
31 managing and monitoring the company’s training and development applications,
32 and maintaining the database. The audit did not recommend that the company

1 should create an in-house Employee Development University. In fact, GSWC's
2 first proposal was to develop a formal training program, this formal training
3 program gradually turned into the EDU.

4 In this proceeding, DRA requested GSWC to provide a cost/benefit
5 analysis for its in-house Employee Development University. The company
6 responded with a study that considered the last ten years of EDU expenses and
7 capital expenditures but which only showed a savings of merely \$94,550 over the
8 past ten years.

9 However, once DRA analyzed certain cost estimations that GSWC used, it
10 became evident that there were no savings at all. For example, GSWC estimated
11 that for its Customer Service Related training the cost will be \$53.06 per hour,
12 whereas DRA believes that after an adjustment of traveling cost the more
13 appropriate cost will be \$23.70 per hour. Similarly, GSWC estimated its
14 Management Development and Safety related training costs at \$124.69 and \$33.78
15 per hour respectively. However, DRA believe that by becoming a long term
16 partner with the training provider GSWC could make use of membership
17 discounts that would reduce the training costs to \$111.88 and \$24.75 respectively.
18 These minor changes in the cost estimations resulted in an actual loss over the last
19 ten years for GSWC's in-house EDU operations.

20 This loss became more severe and enormous, totaling as much as
21 \$4,481,456, once DRA took into account the value of other existing training
22 programs that run parallel and in addition to in-house EDU training programs
23 within the company. Following is the list of such training programs:

- 24 • Management Initiatives, Succession, and Training Cost:
- 25 • Corporate Membership for AWWA
- 26 • Employees Membership for AWWA
- 27 • Corporate Membership in AWWA Research Foundation
- 28 • Outside Consulting

1 GSWC currently incurs on average an expense of \$318,723 per year under
2 its Management Initiatives, Succession, and training programs. This training is
3 above and beyond the Management Development training that EDU provides in-
4 house. Therefore, ratepayers have to bear the burdens of this duplication of
5 efforts. On one hand, ratepayers are paying for the expensive functions of having
6 an in-house Employee Development University; on the other hand, the ratepayers
7 are also charged heavily for the same or similar services GSWC is obtaining from
8 outside service providers.

9 GSWC's membership in the American Water Works Association (AWWA)
10 militates against the need for in-house training and research. The AWWA, an
11 international non-profit scientific and educational society, is the authoritative
12 resource of training, information, and advocacy to improve the quality and supply
13 of water in North America and beyond. The largest organization of water
14 professionals in the world the AWWA also advances public health, safety, and
15 welfare by coordinating the efforts of the entire water community. This
16 organization also offers a wide range of training on distribution systems, water
17 production and treatment.

18 GSWC extolled the advantages of belonging to the AWWA when it
19 responded to a DRA data request as follows:

20 "Membership in AWWA benefits Golden State Water
21 Company in many ways...

22 *Training and Knowledge Sharing: AWWA provides*
23 *many forums for training GSWC personnel about*
24 *emerging issues in the water industry. These include*
25 *monthly publications, training manuals, seminars both*
26 *on-site, teleconference, and web cast), and*
27 *conferences. These forums keep GSWC personnel*
28 *current on rapidly changing topics such as water*
29 *quality regulations..."*

30 GSWC annually incurs an expense of approximately \$22,817 for its
31 memberships in AWWA.

1 GSWC's also spends annually \$45,000 for its membership in AWWA
2 Research Foundation, which is a member-supported, non-profit research
3 organization established for the purpose of sponsoring research in the
4 improvement of water utilities, public health agencies, water professionals, and
5 water consumers. AWWA Research Foundation has sponsored more than \$370
6 million in research and completed over 600 research projects.

7 GSWC receives peer-reviewed and scientifically credible research and
8 technologies that are applicable to improving services. In addition, GSWC
9 receives research reports, complimentary registrations at technical conferences and
10 workshops, and complete access to the AWWA Research Foundation's network of
11 researchers and drinking water experts.

12 It is quite evident that no water utility on its own can develop the extensive
13 water expertise that is available from AWWA. GSWC should focus its limited
14 resources on its core competency, water production and distribution. The task of
15 training should be left to such professional organizations as the AWWA, which
16 can provide the needed water training more efficiently and cost effectively.

17 Therefore, DRA recommends dissolving the EDU and moving two of its
18 employees, namely the Dean and the Senior Employee Development Specialist, to
19 GSWC's Human Resource Department. A merged Human Resource and EDU
20 would save GSWC money in assessing and coordinating the company's training
21 needs.

22 **13. Senior Employee Development Specialist** 23 **(0.5)**

24 GSWC is requesting to treat the salary of this position as a single EDU
25 expense. The salary is currently accounted for as both an expense of it's the
26 Region I Headquarters and the Employee Development University.

27 There is no need for this adjustment. As previously discussed DRA
28 recommends dissolving the EDU which would render this proposed adjustment

1 moot. Otherwise, the salary of the position should entirely be accounted for as a
2 Region-I Headquarter expense.

3 **14. Facilitator/Instructor-EDU**

4 GSWC is requesting a new position for a Facilitator/Instructor with an
5 annual salary of \$80,001 in General Office.

6 There is no need for this new position. As previously discussed, DRA
7 recommends dissolving the EDU, which if approved by the Commission, it would
8 render the request for this new position moot.

9 **15. Communications, Media and Technical** 10 **Generalist**

11 GSWC is requesting a new position of Communication, Media and
12 Technical Generalist with an annual salary of \$65,000 in General Office. GSWC
13 argues that informing customers on a regular basis about the water they consume
14 is a very important part of earning and building a customer's trust. The company
15 claims that currently it does not have an employee that is dedicated to this
16 particular job and a specialized individual in this position would benefit both the
17 company and the customers.

18 DRA disagrees that this new position is needed. Presently, GSWC is
19 adequately staffed in the areas of Water Quality and Customer Service, the two
20 areas that bear directly on both GSWC and its customers. The existing Customer
21 Service Manager could easily perform the functions of the new position with the
22 occasional help of GSWC's Water Quality resource. GSWC currently pays an
23 annual salary of \$125,000 to its Customer Service Manager and \$144,900 to its
24 Water Quality Vice President. These executives should get involved with
25 corporate communications and conduct public outreach with their customers as a
26 requirement to their job function. Therefore, DRA recommends disallowing
27 position of Communication, Media and Technical Generalist.

1 **16. Tax Manager**

2 GSWC is requesting a new position of a Tax Manager with an annual
3 salary of \$127,000 in General Office. GSWC argues that in 2002 when
4 transferring its external auditing job from Arthur Anderson to PriceWaterhouse
5 Coopers, the company completed a comprehensive review of the GAAP reporting
6 of its income taxes. This culminated in restatement of income taxes in the 2002
7 and 2001 financial results. In this context, Management concluded that an internal
8 control weakness existed in the income tax area, which prompted the company to
9 hire a Tax Manager. GSWC goes on to state that the GSWC's external auditor
10 also *verbally* recommended hiring of a Tax Manager.

11 First, GSWC did not provide details regarding the nature, source, cause,
12 and the remedial action relating to the so called internal control weakness in tax.
13 DRA understands that utilities sometimes have to revise their financial statements,
14 but GSWC did not show the same or similar problem would likely reoccur in the
15 future. The fact that the GSWC's external auditor verbally made its
16 recommendations for hiring a Tax Manger only validates the concern that the
17 problem may not have been severe.

18 Further, the increasing complexities of Federal and State tax law are
19 nothing new. Both Federal and State governments constantly revise, amend, and
20 add to tax laws depending upon the current needs and policies of the day.

21 GSWC currently has one Tax Supervisor and two Tax Specialists in
22 addition to the position of Controller and other Accounting staff. The existing
23 level of staff handling tax related assignment appears sufficient. There is no need
24 for adding an additional Tax Manager position.

25 GSWC is also requesting an installation of new Tax Software in 2007 for
26 \$432,500 to facilitate evaluating the GSWC tax liability. In approving this project
27 which is proposed in the Ratebase section of this application, DRA believes that
28 with this software and the existing tax staff GSWC is sufficiently and adequately

1 equipped to handle the tax related work. DRA recommends disallowing the
2 position of Tax Manager.

3 **17. Financial Reporting Supervisor**

4 GSWC is requesting a new position of Financial Reporting Supervisor with
5 an annual salary of \$79,000. GSWC argues that currently, the organization under
6 the Controller includes one accounting supervisor with three analysts reporting to
7 this person, and one Financial Reporting Analyst who reports to the Controller
8 directly. Lately, due to the increased focus on the GSWC's Plant area with respect
9 to Sarbanes-Oxley Act and other regulatory requirements, GSWC proposes to
10 change the responsibilities of the Controller to have two accounting Supervisors
11 report to that person, namely, the Utility Plant Supervisor and the Financial
12 Reporting Supervisor.

13 DRA agrees with GSWC's proposal and allows this reorganization under
14 the GSWC's Controller, by recommending the position of new Financial
15 Reporting Supervisor position.

16 **18. Accountant**

17 GSWC is requesting a new position for an Accountant with an annual
18 salary of \$68,307 in General Office. GSWC argues that the over the last two years
19 significant changes have resulted in increased workload. The new position will
20 serve under Financial Reporting Group at the General Office that currently has one
21 Supervisor with two junior accountants reporting to the Supervisor.

22 However, the existing Accounting and Finance Department consists of 26
23 employees. The Controller has one Utility Plant Supervisor, one Financial
24 Reporting Supervisor (newly created) and three junior level accountants. As a
25 result, GSWC's Controller now has two Financial Reporting Supervisors and three
26 junior accountants who assist the two Financial Reporting Supervisors. This
27 arrangement gives the GSWC Controller adequate Financial Reporting staff to
28 handle the increased work load that might have been created by the Sarbanes-

1 Oxley Act. On the other hand, GSWC does have a position of a highly paid
2 Controller who at the most part should be dealing with accounting related issue
3 herself. With this level of increased supporting staff, the contributions of the
4 GSWC's Controller itself become questionable. Nevertheless, DRA believes that
5 with the addition of new position of Financial Reporting Supervisor, the
6 requirement imposed by the Sarbanes-Oxley Act are already excessively dealt by
7 the GSWC, and hence there is no need to add an additional position of an
8 Accountant.

9 In addition, GSWC is requesting several software packages in its ratebase
10 that will result in better record keeping, data base systems, and report writing
11 functions of GSWC's financial accounting data. Because DRA is allowing all
12 such requests there is no need to add a new accounting position. DRA
13 recommends disallowing the position of an Accountant.

14 **19. Internal Auditor**

15 GSWC is requesting a new position of an Internal Auditor with an annual
16 salary of \$71,000. GSWC argues that the increased importance and emphasis on
17 risk management and the monitoring of the effectiveness of internal controls over
18 financial reporting brought about by the Sarbanes-Oxley Act warrants this
19 additional position.

20 DRA disagrees because GSWC's Internal Auditing is performed for the
21 benefit of GSWC's parent, American States Water Company (AWR). GSWC
22 does not report to the Securities and Exchange Commission (SEC) at the end of
23 the year; it is AWR that is responsible for this financial reporting. GSWC's own
24 organization chart does not depict these positions as having any reporting relations
25 within the Accounting & Finance Department. The Audit Manager directly
26 reports to the Board of Directors instead.

27 Therefore, DRA recommends disallowing not only the position of Internal
28 Auditor, but also removing all labor expenses related to the other Internal Auditing
29 staff: namely, the Audit Manager and the Senior Auditor as well.

1 **20. Vice President of Finance, Treasurer and**
2 **Assistant Secretary**

3 GSWC states that it created this new position in November-2002.
4 However, the Commission only now has the opportunity to evaluate the
5 reasonableness of this position in a typical rate application setting. Further, even
6 though GSWC did not request this position in its 2002 General Rate Case (GRC)
7 application, A. 02-11-007, the Commission in D. 04-03-039 indicates that the
8 recorded end of year 2002 labor expenses are taken into account for ratemaking
9 purposes.

10 In other words, impact of this new position with annual salary of \$162,500
11 on rates is already taken into account in the previous years. Because the
12 Commission was not given an adequate opportunity to evaluate the reasonableness
13 of this position in prior years, GSWC is now presenting this request.

14 GSWC argues that the foremost need for this position arises from the
15 financial reporting requirements that the Sarbanes-Oxley Act imposes on GSWC
16 referencing sections 320, 906, and 401 of the Act to justify the need for the
17 position.

18 DRA, however, believes that the financial reporting requirements imposed
19 by the various sections of the Sarbanes-Oxley Act directly involve GSWC's CEO
20 and CFO but not the Treasurer. The CFO is paid an annual Salary of \$235,000
21 and CEO an annual salary of \$410,000. DRA wonders what these two top
22 executives themselves are contributing, when the GSWC is often requesting new
23 additional positions to perform their responsibilities.

24 As for GSWC's financial reporting responsibilities, they are directly related
25 to the Controller and not the Vice President of Finance. The Controller should
26 report directly to the CFO and not the Vice President of Finance. Therefore, the
27 Vice President of Finance is an unnecessary layer within GSWC's organization
28 structure.

1 And as we discussed earlier, the Controller is given more than sufficient
2 staff and it help to create reliable and accurate financial reports. In addition,
3 GSWC spends a considerable amount annually on external auditors to assist it in
4 weeding out any problems in the Financial Statements or GSWC's Internal
5 Controls.

6 As for the other listed responsibilities of Infrastructure Financing, Tax
7 Compliance, and Regulatory/Accounting Interface for the Vice President of
8 Finance, GSWC's current organization and level of staff within its Accounting &
9 Finance and Regulatory Affair Departments are sufficient to perform the
10 responsibilities in these areas. Therefore, DRA recommends disallowing the
11 position of Vice President of Finance.

12 **21. Associate Rate Analyst**

13 GSWC is requesting a new position of an Associate Rate Analyst with an
14 annual salary of \$59,000. GSWC argues that lately, it went through a
15 restructuring of the Regulatory Affair Department and in the process replaced two
16 managerial positions with the new specialist positions that are at the lower salary
17 grade than those of the outgoing Managers'. Therefore, the overall labor expense
18 decreases within the Department and hence the new position is justified.

19 DRA disagrees. Just because GSWC saved money by restructuring the
20 Regulatory Affair Department, this should not be the reason for an additional
21 position. GSWC did not lose any of the existing positions within the Department
22 through the restructuring. Currently, Regulatory Affair Department consists of 10
23 staff members:

- 24 1- Vice President ---Regulatory Affairs.
- 25 2- Regulatory Manager
- 26 3- Senior Regulatory Specialist
- 27 4- Special Regulatory Supervisor
- 28 5- Four Senior Regulatory Analysts
- 29 6- Associate Regulatory Analyst

1 7- Administrative Secretary

2 The existing staff level is sufficient to handle the regulatory related
3 workload. GSWC has three Operating regions; therefore, it files only one GRC
4 application per year. Typically, DRA assigns a team of 5 staff to GRC
5 applications of the size of GSWC's Region II filing; one of the staff is responsible
6 for the cost of capital report. Water utilities; typically hire an outside consultant to
7 present their Cost of Capital report. In addition, ample resources are available
8 throughout GSWC to prepare testimonies in the ratebase and expense area. Water
9 utilities also deal with several issues besides the typical GRC application such as
10 advice letter fillings, and several other special projects. However, DRA believes
11 that the current Regulatory Affairs Department is adequately staffed to handle a
12 typical GRC and other regulatory workloads. Therefore, DRA recommends
13 disallowing the position of Associate Rate Analyst.

14 **22. EPRP Coordinator**

15 GSWC is requesting a new position of an EPRP Coordinator with an annual
16 Salary of \$79,986 in General Office. GSWC argues that the need for this position
17 arises from Public Health and Bioterrorism Preparedness and Response Act of
18 2002. GSWC argues that the requirement for maintaining current Vulnerability
19 Assessments from Federal EPA and the ongoing requirement to maintain
20 Emergency Response Plans make it critical that this position be maintained. In
21 addition, GSWC argues that it is serving over one million people in over 40
22 separate water systems, each of which requires a separate plan, and the task of
23 maintaining these plans is an enormous responsibility.

24 DRA believes that the GSWC's existing staff can effectively meet the
25 requirements under the Public Health and Bioterrorism Preparedness and
26 Response Act. Especially, given the fact that GSWC already has completed the
27 initial vulnerability assessment, the existing Safety Specialist with the help from
28 the Regional Managers, who have first hand knowledge of their respective water

1 systems, can perform the requirements imposed by the Act. Therefore, DRA
2 recommends disallowing the position of EPRP Coordinator.

3 **23. Corporate Communications Manager**

4 GSWC is requesting a new position of a Corporate Communications
5 Manager with an annual salary of \$103,417 in General office. GSWC argues that
6 managing and communicating valuable information to its customers and
7 shareholders on a timely basis about the water industry as well as the company is
8 an important responsibility. GSWC further adds that traditional ways of “bill
9 inserts” may be an inexpensive means to convey important information, but hardly
10 proves to be effective. In addition, GSWC argues that in the past, the company
11 used traditional communication sources such as postal mailers, newsprints, and
12 radio and television spots to communicate with its customers and shareholders.
13 However, GSWC is concerned that these traditional methods may not reach the
14 end users of the information, and more specialized communication means should
15 be assessed. The new Corporate Communications Manager would be responsible
16 for implementing consistent communications to GSWC’s customers, shareholders,
17 and employees.

18 DRA does not necessarily disagree with the importance of the role
19 information can play for the GSWC’s employee, customers, and shareholders
20 alike. However, DRA believes that GSWC current organization structure and
21 level of staff along with its Communications related expenses are adequately
22 sufficient for the function of disseminating pertinent information to its employees,
23 customers, and shareholders.

24 GSWC currently has staff of six Executives:

- 25 1- Chief Executive Officer
- 26 2- Senior Vice President---Operations
- 27 3- Chief Financial Officer
- 28 4- Senior Vice President ---Administration
- 29 5- Vice President ---Regulatory Affairs

1 6- Vice President---Water Quality

2 Ratepayers are burdened with annual salary expenses for these positions
3 totaling more than \$1,379,700, not including the benefits and pension related costs
4 that are above and beyond these base salaries. In addition, GSWC makes use of
5 every possible method of communication, from simple mail inserts to hi-tech,
6 web-based broadcasts. It is difficult to understand how despite these levels of
7 management and communications capabilities, the GSWC is failing to
8 communicate its objectives, goals, and visions to employees, customers and
9 shareholders.

10 If GSWC is failing to convey its message to end users, GSWC has given no
11 proof of such events. In the absence of contrary data, the Commission should
12 reject GSWC's claims as speculative. DRA, therefore, recommends disallowing
13 the position of Corporate Communications Manager.

14 **D. GSWC's Previous Request for New Positions in**
15 **General Office**

16 When requesting new positions in the prior GRC, A02-11-007, GSWC
17 presented no supporting written testimonies; DRA was not informed that GSWC
18 was requesting any new positions. The salary expenses for the new hires were
19 embedded in the GSWC's forecasted labor expense and the positions were
20 inserted into the organizational charts. The absence of supporting testimony for
21 those new hires was not only deceiving but also indicated the lack of justifications
22 for the new positions. DRA now finds out that some of the positions added in this
23 fashion make no practical and economical sense at all. DRA strongly protests this
24 sort of evasiveness. GSWC must present and justify all of its requests for
25 additional expenses in a clear and detailed fashion.

26 The Commission's approval of an overall labor expense does not amount to
27 the Commission approval of new positions that are unjustified and unsupported by
28 specific written testimony. GSWC's elusive presentation deprives DRA of notice

1 and due process and results in an incomplete and less than full record for the
2 Commission's deliberations.

3 GSWC included 19 new positions in its prior GRC application that were
4 unsupported by the record and unjustified. These positions were as follows:

5	1-Senior System Programmer; Annual Salary:	\$79,234
6	2-System Programmer; Annual Salary:	\$69,956
7	3-Risk Manager; Annual Salary:	\$115,289
8	4-Risk Management Analyst; Annual Salary:	\$68,307
9	5-Senior HR Specialist; Annual Salary:	\$63,243
10	6- Customers Service Rep. (5); Collective Annual Salary:	\$173,330
11	7-Call Center Support Analyst; Annual Salary:	\$48,470
12	8- CIS Billing Specialist; Annual Salary:	\$51,906
13	9-Assistant Applications Support; Annual Salary:	\$53,861
14	10-Associate JDE Analyst; Annual Salary:	\$75,294
15	11- Senior Financial Analyst; Annual Salary:	\$85,365
16	12-Financial Analyst; Annual Salary:	\$68,000
17	13-Tax Specialist-II; Annual Salary:	\$62,283
18	14-Accountant; Annual Salary:	\$65,000
19	15-Senior Auditor; Annual Salary:	\$89,666

20 After carefully reviewing each position, DRA imputes the following 8 of
21 the 19 positions that were improperly hidden in GSWC's labor expenses for the
22 General Office without proper written testimony and justifications:

23 **1. System Programmer**

24 In 2002, GSWC already had one Senior System Programmer position but
25 included in labor expenses an additional Senior System Programmer position and
26 a System Programmer position. DRA believes that addition of another Senior
27 System Programmer was adequate, but adding the System Programmer position is
28 unreasonable and unjustified. The IT Department receives regular technical help
29 from its various vendors, and each functional area such as Accounting & Finance,

1 and Customer Service have their won IT specialists and respective vendor support.
2 Therefore, DRA imputes the position of Senior System Programmer.

3 **2. Risk Manager**

4 In 2002, GSWC formed a Risk Management Department and included the
5 position of Risk Manager and Risk Analyst. GSWC also moved then existing
6 Safety Specialist position out of Human Resources into the newly formed Risk
7 Management Department. And all this maneuvering was done without supporting
8 written testimony and justification.

9 DRA now has discovered that the highly paid position of Risk Manager
10 mostly performs liaison services between GSWC and its outside Brokers and
11 Third Party Claim Administrator. GSWC spent heavily to secure the services of its
12 Broker and Third Party Claim Administrator. For example, in 2005, the company
13 paid \$202,500 for administration fees to its Broker, MARSH Services, and an
14 additional \$21,045 for special projects fees; and \$60,194 to its third party Claim
15 Administrator, David Morse & Associates. The high salary expense for Risk
16 Manager Position is not commensurate with the liaison services performed by the
17 Risk Manager and therefore is unjustified and unreasonable. DRA imputes the
18 position of Risk Manager. However, DRA accepts the Risk Analyst position but
19 recommends moving both the Risk Analyst and the Safety Specialist positions to
20 the GSWC's Human Resources Department.

21 **3. Senior HR Specialist**

22 In 2002, GSWC failed to justify adding this position. Apart from this
23 Senior HR Specialist position, GSWC's existing Human Resource Department
24 consists of:

- 25 1- HR Manager
- 26 2- HR Supervisor
- 27 3- Two Senior HR Specialists
- 28 4- Three HR Assistants

1 5- HR General Clerk (New position; DRA recommends)
2 GSWC failed to show that the current levels of supervisory and rank-to-file
3 staff t in GSWC's Human Resources Department are inadequate. Therefore, DRA
4 imputes the position of Senior HR Specialist.

5 **4. CIS Billing Specialist**

6 In addition to this position, GSWC currently has another CIS Billing
7 position in its Customer Service Department. The job descriptions that were
8 provided as part of GSWC's response to Master Data Request do not show that an
9 increase in the number of regulated customers served creates a need for another
10 CIS Billing Specialist. More likely, the increase in GSWC's Non-regulated Billing
11 Service Contracts appears to be the most salient cause for this new position. The
12 already existing position of a CIS Billing Specialist appears adequate to serve the
13 needs of the ratepayers, who should not subsidize the expenses for GSWC's non-
14 regulated business activities. Therefore, DRA imputes the position of CIS Billing
15 Specialist.

16 **5. Assistant Applications Support**

17 In addition to the requested Assistant Application Support position, GSWC
18 currently has an Application Support Manager, an Application Support
19 Supervisor, and a Senior Application Personnel. Further, GSWC spends sizeable
20 monies to secure vendor support for almost all of the software installed throughout
21 GSWC. Because of existing number of Applications Support Personnel and
22 availability of vendor support, GSWC request for an additional Assistant
23 Application Support is unjustified and unreasonable. Therefore, DRA imputes the
24 addition of the position of the Assistant Application Support.

25 **6. Senior Financial Analyst**

26 As the name implies, GSWC's Accounting & Finance Department is
27 consisted of Finance and Accounting related personnel. In its Finance section,
28 apart from this position of Senior Financial Analyst, there exist positions of:

- 1- Financial Planning Manager
- 2- Financial Supervisor
- 3- Senior Financial Analyst
- 4- Financial Analyst
- 5- Associate Financial Analyst

DRA believes that due to existing number of Financial Analyst Personnel, GSWC lacks justifications for adding the position of an additional Senior Financial Analyst; therefore, DRA imputes the addition of the position of the Senior Financial Analyst.

7. Financial Analyst

In its Finance section, apart from this position of Financial Analyst, there exists a position of one Financial Planning Manager, one Financial Analysis Supervisor, one Senior Financial Analyst, one Financial Analyst and one Associate Financial Analyst. DRA believes that due to existing number of Financial Analyst Personnel, GSWC lacks justifications for adding the position of an additional Financial Analyst; therefore, DRA imputes the addition of the position of the Financial Analyst.

8. Senior Auditor

In discussing the merits of adding the position of Internal Auditor earlier, DRA already expressed its opinion that due to the nature of the work, all of the Internal Auditors ought to be considered employees of GSWC's parent company, American States Water Company. Therefore, DRA imputes the addition of the position of Senior Auditor and Audit Manager and their respective salaries.

E. Other Adjustments for Labor

Apart recommendations of disallowing the above mentioned positions, DRA also made certain adjustments of the labor estimates as follows:

1 **1. Exclusion of 1.80% rate for Small Tool**
2 **Clearing Expense**

3 In its last GRC application, A.05-02-004, GSWC included the cost of its
4 small tool expense as distributed by a loading factor of 1.8% toward its company-
5 wide labor expenses. DRA objected to this practice, and in D.06-01-025, the
6 Commission also held that GSWC failed to prove the amounts recorded under the
7 “Tool Clearing Account” are in fact for the small tools.

8 ALJ noted that the approximately 71% of the expenses booked under the
9 “Tool Clearing Account” related to the GSWC’s General Office depreciation
10 expenses instead of small tools. In addition, ALJ ordered that in its up coming
11 GRC application in 2006, GSWC must comprehensively analyze and report its
12 “Tool Clearing Account”:

13 As we discuss elsewhere in today’s decision, SCWC will be filing its
14 general office rate case in 2006. In that filing, SCWC must comprehensively
15 discuss the too clearing account. (D.06-01-025, mimeo at 57.)

16 In this GRC application, GSWC failed to present a comprehensive
17 discussion regarding the various expenses booked under the “Tool Clearing
18 Account”. Instead GSWC only presented recorded data of transactions for “Tool
19 Clearing Account” which took place during the last year. This data is nothing
20 different than the partial year data GSWC presented in D. 06-01-025 which was
21 adjudged an insufficient explanation of why the majority of transactions do not
22 relate to small tools.

23 On the other hand, DRA discovered that GSWC also books some of its
24 small tool costs elsewhere in addition to its “Tool Clearing Account”. For
25 example, during its review of GSWC’s workpapers, DRA discovered that the
26 GSWC books cost of its small tools in its Overhead Pool under “Miscellaneous
27 Construction Cost.” When DRA asked (Deficiency question 4.136) how GSWC
28 decides what small tool costs are capitalized in the overhead pool and what small

1 tool costs are expensed under the “Tool Clearing Account,” GSWC responded that
2 all small tool costs should be charged to “Tool Clearing Account”.

3 In addition, DRA found that GSWC has no formal central purchasing
4 policy established for the purchase of small tools and other office supplies.
5 Various GSWC employees are purchasing these items from retail stores, such as
6 Home Depot, Office Max, and Target etc. This cannot result in cost savings to the
7 ratepayers. Given all of these concerns, DRA recommends excluding the tool
8 clearing from the GSWC’s labor expenses.

9 **2. Overtime Rate**

10 GSWC used an overtime rate of 2.0% based on the last nine months ending
11 September 2005. The historic five year trend is more appropriate to use because it
12 is more likely to capture the highs and lows of work related activities throughout
13 the years than nine months of data. GSWC has not justified using only nine
14 months instead of five years of data. Therefore, DRA recommends the use of
15 overtime rate of 1.07% that is based upon normalized five year historical data.

16 **3. Equity Adjustment**

17 GSWC used an equity adjustment rate of 1.28% to increase its labor
18 expenses within the General office. GSWC did not justify the need of this equity
19 adjustment. In addition, GSWC has similar program in the Pension & Benefit
20 expense category, under which GSWC awards “Discretionary Bonus” to its
21 employees. GSWC’s employees are paid well, and DRA recommends continuing
22 the “Discretionary Bonus” program. Therefore, DRA recommends disallowing
23 the Equity Adjustment of 1.28% as unnecessary, excessive, and unreasonable.

24 **4. Vacant Positions**

25 How GSWC estimates its labor cost in General Office, does not take into
26 account that throughout the year several positions will go unfilled, including for
27 rate recovery the labor expenses for such vacant positions unfairly burdens
28 ratepayers.

DRA recommends a downward adjustment of \$563,627 based upon GSWC's five year historical vacancy data that is trended for unusual years such as 2001 and 2005. GSWC's historical five year vacancy data is as follows:

<u>VACANT POSITIONS ANALYSIS</u>					
Year	2001	2002	2003	2004	2005
Salary	164,424.00				
Expense		680,852.00	397,902.00	471,089.00	988,270.00
5-year average		<div>563,626.85</div>			

As the above chart shows, the values in 2001 are comparatively too low and similarly the values in 2005 are comparatively too high. Therefore, a less volatile, uniform, and unbiased trend can be achieved by excluding the expenses in these atypical years.

F. All Other Operating Expenses

GSWC requested \$287,700 for the All Other Operating Expense Account in the Test Year 2007 whereas DRA recommends \$154,723.

GSWC currently books several of its Water Quality, Customer Operations Support Department, Regulatory Affairs, and Executive related expenses in this account. GSWC simply inflated the year 2004 expenses to 2007 Test Year dollars.

GSWC only presented data for two years, 2003 and 2004, in its workpapers, thus, practically preventing DRA from reviewing historical trends over the last five years. In any case, these 2003 and 2004 data expenses failed to justify including Water Quality and Regulatory Related expenses. Further, DRA discovered that historically no expenses were incurred under Water Quality for 2001 and 2002. While the latest expenses were only for postage and advertising, no details were provided regarding the nature and scope of the mailings and advertisements performed under Water Quality.

1 Similarly, no expenses were booked under Regulatory Affair in 2001 and
2 2002. The only recorded expenses in 2003 and 2004 were for \$615 and -\$222
3 respectively. However, GSWC estimated \$13,598 for 2006 and then inflated this
4 amount to achieve its estimates for the Test Year 2007. GSWC failed to explain
5 and justify its estimated Water Quality and Regulatory Affairs expenses.
6 Therefore, DRA excluded these expenses.

7 DRA final estimates for the account of “All other Operating Expense”
8 consist of only Customer Operations Support Department. Historically, GSWC
9 has a varied level of expenses booked under several sub categories of the
10 Customer Operations Support Department. DRA carefully analyzed and trended
11 each category over the span of last five years and selected values that presented a
12 uniform and less volatile trend. Please refer to DRA workpapers for more details.

13 **G. Office Supplies & Expense**

14 GSWC requested \$2,380,700 for Office Supplies & Expense Account in the
15 Test Year 2007; DRA recommends \$1,728,406.

16 Within its Office Supply Account, GSWC currently records expenses under
17 various sub-categories such as Bank fees, Printing-A&G, Printing Public
18 Relations, Messenger & Service Charges, Building Services, Supplies-A&G,
19 Postage-Others, Subscriptions, Electric-A&G, Natural Gas-A&G, Garbage-A&G,
20 Building Supplies, Equipment Rental, Travel & Entertainment- Transportation-
21 A&G, Travel & Entertainment-Lodging-A&G, Travel & Entertainment- Other-
22 A&G, Local telephone, Cellular phones-A&G, Fax-A&G, Long Distance
23 Telephone-A&G, Vehicle –A&G, and Others, Miscellaneous-A&G.

24 The above mentioned sub-categories were used to record expenses from
25 various departments. For example, the Customer Operation Support that is
26 consisted of Information Technology, and Customer Service Center, Accounting
27 & Finance Department, Regulatory Affair Department, and Executive Department.
28 In general, GSWC inflated the year 2004 overall departmental-level recorded
29 expenses to achieve its estimates for the Test Year 2007.

1 On the other hand, DRA carefully evaluated the five year historical expense
2 data in each of these sub-categories (not the department level) recorded data to
3 estimate Test Year expenses based upon a uniform and less volatile historic trend.
4 Please refer to DRA workpapers for more details. The following are the
5 normalizing trending techniques that DRA used:

6 **1. Inflation of last recorded year expenses**

7 Generally, this technique is used when there is an obvious gradual upward
8 trend, and it was more likely that this upward trend will continue in the future.
9 The 2005 recorded expenses were inflated with the use of appropriate escalation
10 factors to achieve the 2007 Test Year estimates.

11 **2. Use of Average of last five year expenses**

12 Generally, this technique was used when the historical data was erratic and
13 no clear trend is emerging from within the five years. In this case the use of an
14 average of all five years became more logical.

15 **3. Exclusion of Expense Category**

16 Generally, this technique was used when the expenses were only booked in
17 one of the years out of the last five recorded year. This fact strongly suggests that
18 the one time expenses were more likely an anomaly, has a non-recurring nature,
19 and will not continue in the future.

20 **4. Exclusion of some of the years over five year**
21 **historical Span**

22 This technique was used when the five year historical data was erratic and
23 volatile, but there was a meaningful trend present within majority of the number of
24 the recorded years.

25 **5. Exclusion of expenses due to disapproval of**
26 **the program**

27 This technique was rarely used. However, there were instances where DRA
28 recommends disallowing certain expenses that it deemed unnecessary. For

1 example, in 2005, GSWC incurred an expense of \$70,378 under the name of
2 “Operation Goble.” GSWC booked this expense under the sub-category, “Others-
3 Miscellaneous-A&G.” Under Operation Goble during Thanksgiving, GSWC’s
4 representatives go door-to-door to their customers within the service area and give
5 away free turkeys. It might be a great PR campaign for the company in its image
6 building quest, however, GSWC failed to prove that by Operation Goble, any real
7 value is added to the GSWC’s water providing capabilities that benefit its
8 ratepayers. Therefore, DRA recommends excluding such programs.

9 **H. Property Insurance and Injuries & Damages**

10 GSWC requested \$2,933,601 for the Property Insurance and Injuries &
11 Damages Expense Accounts in the Test Year 2007; whereas DRA recommends
12 \$2,222,244.

13 The Property Insurance and Injuries & Damages Account are made up of
14 several line items such as Property Insurance, General Liability Insurance, Auto
15 Liability Insurance, Loss reserves, Excess worker Compensation Insurance,
16 Umbrella Liability Insurance, Fiduciary Insurance, Crime Insurance, and services
17 fees for GSWC’s Broker and Third Party Claim Representative.

18 GSWC presented the actual cost data for the fiscal year 2004–2005 along
19 with the budgeted cost estimates for the fiscal year 2005–2006 along with short
20 notes that did not fully explain the reasons for the insurance rate increases.
21 GSWC then inflated the 2006 data to estimate the expenses in Test Year 2007. In
22 addition, GSWC’s Risk Manager’s testimony stated that for the most part GSWC
23 relies on its Broker, MARHS Risk and Insurance Services, to estimate the new
24 premiums for various insurances.

25 In reviewing the accuracy of the GSWC’s estimations for the various line-
26 items that were included under Property Insurance and Injuries & Damages, DRA
27 requested the actual recorded data for 2005 and compared the values with the
28 budgeted values for 2005. DRA discovered that on average, the last year
29 estimates were 12.52% higher than the actual expenses. Therefore, DRA made a

1 downward adjustment at the rate of 12.53% for GSWC's estimates for the Test
2 Year 2007.

3 In addition, there were several line-items for which there were obvious
4 reasons to adjust the GSWC's estimates. Following are those line-items:

5 **I. Auto Liability Adjustment**

6 GSWC indicated that its Auto insurance estimates of \$226,446 in the Test
7 Year 2007 were based upon the number of vehicles. Because GSWC records the
8 auto insurance cost of all of its vehicles in the General Office, DRA adjusted these
9 Auto Insurance Premiums downward based on the disallowance of vehicles in its
10 General Office and Region-II service areas.

11 In its data response to DRA Data Request AMX-04, GSWC provided the
12 ratio of \$568/vehicle for Auto Insurance Premium. DRA's Ratebase witness in
13 Region-II disallowed 8 of new vehicles that the GSWC requested in its capital
14 expenditures for 2006.

15 In addition, GSWC currently provides luxury vehicles to each of its seven
16 top executives. These vehicles range from \$40,038 of Infiniti G35X to \$59,143 of
17 Audi S4. DRA believes that for a regulated water utility, it is unreasonable to
18 burden its ratepayers with such luxury expenses that are nothing but additional
19 perks given to already highly paid executives. Therefore, DRA also exclude the
20 related auto insurance premiums for these vehicles.

21 DRA downwardly adjusted GSWC's Auto Insurance Expenses in the
22 amount of \$8,520 to the final estimated amount of \$138,856 in the Test Year
23 2007.

24 **J. Adjustment for Workers' Compensation Loss**
25 **Reserve**

26 GSWC's cost estimates of \$723,800 for Workers' Compensation (Loss
27 Reserve) are based upon its Broker, MARSH Risk and Insurance Services'
28 studies. In preparing these estimates, MARSH made several assumptions, one of
29 which was that GSWC's salary in 2005–2006 in the amount of \$32,045,000. As

1 DRA recommends several reductions in GSWC's labor expense in General Office,
2 the underlying ratio between the Workers' Compensation (loss Reserve) expenses
3 to that of GSWC's total salary as recommended by DRA is then used to reduced
4 the Workers' Compensation (loss reserve) expense in the amount of \$61,049.

5 **K. Adjustments for Excess Workers Compensation**

6 GSWC's estimates in the amount of \$229,869 for the Test year 2007 for its
7 Excess Workers' Compensation were also based upon its Broker, MARSH Risk
8 and Insurance Services' studies. Because the same salary assumptions were used
9 by MARSH in estimating these expenses as were used for estimating Workers'
10 Compensation (loss reserve), DRA, therefore, downwardly adjusted the \$18,751
11 due to the reduced salary level in the General Office.

12 Further, the difference between GSWC and DRA estimates for the Property
13 Insurance and Injuries & Damages expenses is also due to the different rate used
14 by the DRA for the capitalization of these expenses in General Office and
15 Region-II.

16 GSWC is requesting to capitalize 21% of these expenses in both General
17 Office and Region-II. DRA recommends that only 5% of these expenses should
18 be capitalized in General Office and 21% in the Region-II. This recommendation
19 actually increases the expensed portion of Injuries & Damages category in General
20 Office.

21 DRA notices that due to the nature of the work assignments within
22 GSWC's General Office, most of the costs cannot be assigned to a specific capital
23 project. Therefore, most of the expenses cannot be capitalized in this manner. On
24 the other hand, GSWC's historical data regarding capitalized expenses also
25 corroborate DRA's understanding. For example, when responding to one of the
26 DRA's deficiency data request, Def.4.143, GSWC provided a ten year historic
27 data regarding the capitalized portion of labor expenses within the General Office.
28 On average, the capitalized portion is approximately 5% of the labor expenses.

1 On the other hand, historical data does support the rate of 21% in the case of
2 capitalized expenses in the Region-II.

3 It should also be noted that it does not matter how the company recovers
4 these expense, either in General Office Expenses or as in the part of capital
5 expenditure. Either way, GSWC is made whole.

6 **L. Pension & Benefits**

7 GSWC is requesting \$14,823,605 for the Pension & Benefits Expense in
8 the Test Year 2007; DRA recommends \$10,047,772.

9 GSWC's Pension & Benefits include several pension and health related
10 benefits that are estimated by the GSWC's actuarial service provider, Mercer.
11 The difference between the GSWC and DRA estimates is due to the following
12 factors:

13 **1. Adjustments for 401K Plan Contributions**

14 GSWC's actuarial service provider, Mercer, made several assumptions in
15 estimating the various liabilities for GSWC, one of which was a salary increase at
16 a rate of 4%. However, DRA recommends the use of the labor inflation rate of
17 only 3.40%. Mercer also assumed that a change of 25 basis points would result in
18 2% decrease in Pension and Benefit Plans (refer to the GSWC response to DRA
19 deficiency data request, 4.29). Therefore, DRA reduced the 401K Plan
20 contribution in the amount of \$62,352 that equates to the corresponding reduction
21 in the salary increase factor by 60 points.

22 Another value used by Mercer was GSWC's total salary expense of
23 \$30,628, 508 as reported by GSWC to Mercer at the end of 2004. DRA
24 recommends reducing the overall General Office's salary expense in the amount
25 of \$2,794,737. As discussed earlier under O&M and A&G labor expense section
26 above, DRA reduced the 401K Plan Contributions in the amount of \$118,529,
27 which corresponds in direct proportion to the reduction in the assumed value of
28 the payroll levels for 2007.

1 **2. Adjustment for Voluntary Employees**
2 **Beneficiary Association (VEBA) Cost**

3 The GSWC' actuarial service provider, Mercer, made use of the same
4 assumption of 4.00% salary increase, and total salary level of \$3,628,508 while
5 estimating the VEBA cost. DRA made downward adjustment due to its
6 recommendations of salary increase at the rate of 3.40% and the over all salary
7 reduction of \$2,794,737 in the GSWC General Office. DRA recommends
8 reducing VEBA cost by \$145,930.

9 **3. Adjustments for Pension Plan Cost**

10 The GSWC' actuarial service provider, Mercer, made use of the same
11 assumption of 4.00% salary increase, and total salary level of \$3,628,508, while
12 estimating the Pension Plan cost. DRA made downward adjustment due to its
13 recommendations of salary increase at the rate of 3.40% and the over all salary
14 reduction of \$2,794,737 in the GSWC General Office. DRA recommends
15 reducing Pension Plan cost by \$800,109.

16 **4. Adjustment for Supplemental Executive**
17 **Retirement Plan (SERP)**

18 The GSWC' actuarial service provider, Mercer, made use of the same
19 assumption of 4.00% salary increase and total salary level of the company's
20 executives of approximately \$2,013,880. In the absence of the amount of salary
21 data for the GSWC's executives, DRA has to calculate an approximate amount.
22 The amount of \$2,013,880 includes the executive's salary in the amount of
23 \$1,751,200 as reported to DRA in this GRC as of 2005 along with the Dividend
24 Equivalent Rights (DER) compensation set for the GSWC executives. The GSWC
25 pays DER compensations that are approximately 15% of the executives' based
26 salary. DRA made downward adjustment due to its recommendations of salary
27 increase at the rate of 3.40% and the over all salary reduction of \$634,180 due to
28 the reduction in the numbers of existing executives in the GSWC's General
29 Office. Therefore, DRA recommends reducing SERP cost by \$223,803.

1 **5. Adjustment in Group Health Insurance**

2 The GSWC also provided the future estimates of its Group Health
3 insurance cost that are in effect, its Actuarial Service provider's forecast for the
4 future year. However, no justification for these future increases in the costs is
5 provided. GSWC indicated that the Group Health costs will increase at the rate of
6 15-18%. The GSWC is requesting an amount of \$6,251,000 for its Group Health
7 Insurance in the Test Year 2007.

8 In the absence of any support for these forecasts, DRA used the last five
9 year trend in the health costs. The following table shows how these costs were
10 increased over the last five years. On average the costs were increased at the rate
11 of 9.06%. Therefore, DRA used this rate to estimate GSWC's Group Health
12 Insurance Cost and recommends an amount of \$4,471,246 in the Test Year 2007.

Group Health Insurance Analysis	
<u>Years</u>	<u>Percentage of increase</u>
2001 to	
2002	9.52%
2002 to	
2003	14.13%
2003 to	
2004	7.93%
2004 to	
2005	9.74%
Average	
increase	9.06%

13
14 Besides the items discussed above, the GSWC has several other line-items
15 within its Pension & Benefit Account, for which DRA recommends the
16 following:

17 **Executives Physical:** The GSWC requested an amount of \$2,100 for the
18 cost of Executive Physicals, which is above and beyond the Group Health
19 Insurance expenses discussed earlier. These charges are part of the extra perks
20 that executives are paid. There is no need to burden Ratepayers with these

1 additional costs, because the GSWC's Group Health Insurance expenses are
2 already accounted for.

3 **Dividend Equivalent Rights (DER):** Currently, the GSWC allows an
4 additional compensation program in the form of Stock Option Compensation for
5 its executives. However, in addition, GSWC also allows its executives to receive
6 dividends while these stocks are not cashed in. GSWC failed to justify the
7 reasonableness of imposing such an extra burden on ratepayers who are already
8 paying for the high executive salaries and their stock options. Therefore, DRA
9 recommends excluding these expenses from the ratemaking calculations. The
10 shareholders should bear the burden for these DER programs, which do not benefit
11 the ratepayers.

12 **Annual Incentive Bonus & Service Rewards:** Currently GSWC has
13 various complementary compensation programs for employees, such as the Stock
14 Option Compensation Program, Dividend Equivalent Rights Program,
15 Discretionary Bonus Program, Annual Incentive Bonus Program, Service Awards
16 program, and Equity Adjustment Program. For example, for the Test Year,
17 GSWC requested an amount of \$1,083,000 for Stock Option Compensation,
18 \$151,583 for Discretionary Bonus Program, \$406,000 for Dividend Equivalent
19 Rights, \$990,000 for Annual Incentive Bonus Program, and \$63,800 for Service
20 Awards.

21 GSWC's current salary levels are very competitive and for the most part are
22 toward the higher end of the industry average. DRA already recommends the
23 Discretionary Bonus program. However, any additional complementary
24 compensation program will unfairly burden the ratepayers, and therefore, should
25 be excluded from the ratemaking process. The shareholders bear the burden for
26 these complementary programs if the GSWC believes them useful.

27 **Flowers, Company Sponsored Picnic, and Holiday Events:** GSWC
28 requested an expense of \$182,800 in the Test Year 2007 for such events as
29 providing flowers for employees, GSWC sponsored picnics, and holiday events.

1 However, GSWC has failed to justify these costs as reasonable. Considering the
2 rising costs of water quality and infrastructure needs, the ratepayers are paying
3 steadily increasing water rates. Ratepayers should not have to bear superfluous
4 expenses that are unjustified and consequently should be excluded from the
5 ratemaking process. If the GSWC believes that these activities are necessary
6 shareholders should bear the burden for them.

7 **M. Business Meals**

8 GSWC is requesting \$89,200 for the Business Meals expenses in the Test
9 Year 2007; whereas DRA recommends \$66,100.

10 GSWC and DRA differ because of their different methodologies. GSWC
11 simply took the average of 2003 and 2004 and then escalated those amounts for
12 the Test Year 2007.

13 DRA believes that the historical five years recorded expense data is the
14 more appropriate basis for evaluating the trend on which the estimates for future
15 Test Year should be based. DRA determined that the Business Meals expenses in
16 the year 2001 were only \$38,925 while in the year 2005 they were \$85,441. On
17 the other hand, they were \$56,600, \$67,850, and \$68,413 in 2002, 2003, and 2004
18 respectively. A uniform trend exists among these years, while the values for 2001
19 and 2005 are too erratic and volatile, which DRA consequently excluded to
20 develop future cost estimates.

21 In addition, DRA discovered that several business meals booked in this
22 account are not related to business travel. For example, several cost entries were
23 for meals taken by employees on GSWC's premises during the overtime work
24 assignments or at the local restaurants without any apparent reason for travel. Due
25 to enormous amount of workpapers involved, DRA only sampled few entries and
26 could not calculate an exact amount to exclude. Therefore DRA imputes 10% of
27 the Business Meals expense due to the improper practice of booking non-travel
28 related meals.

1 **N. Regulatory Expenses**

2 GSWC requested \$50,300 for the Regulatory Expense in the Test Year
3 2007; whereas DRA recommends \$35,804. It should be noticed that these
4 Regulatory Expenses do not reflect the expenses related to a typical CRG
5 application; GSWC books GRC application related expenses in its respective
6 regions.

7 GSWC and DRA differ because of their different methodologies used.
8 GSWC took the average of the last four years recorded expenses and then
9 escalated that value to Test Year 2007.

10 DRA believes that the historical five years recorded expense data is
11 important in order to evaluate the trend on which the future estimates should be
12 based. DRA carefully evaluated the five years historical expense data and
13 discovered that the Regulatory Expenses for 2001 were \$205,939 while for 2002
14 they were \$77,600. On the other and they were \$31,900, \$22,334, and \$42,603 for
15 2003, 2004, and 2005, respectively. Therefore, a uniform trend exists among these
16 years, while the values for 2001 and 2002 are too erratic and volatile, which DRA
17 excluded to develop future cost estimates. DRA estimate is based on a three-year
18 average, resulting in a level of \$35,804 for Test Year 2007.

19 **O. Outside Services**

20 GSWC requested \$6,740,949 for the Outside Services expense in the Test
21 Year 2007; whereas DRA recommends \$3,252,541.

22 The difference is mainly due to the different estimation methodology used
23 by both the GSWC and DRA. The GSWC took the last year's recorded expenses
24 and escalated the values to Test Year 2007.

25 DRA believes that historical five years recorded expense data is important
26 in order to evaluate the trend on which the future estimates should be based. DRA
27 carefully evaluated the five years historical expense data and discovered that over
28 the course of five years, GSWC had used 166 different outside vendors for various
29 purposes inside its General Office. The company used some vendors on a regular

1 basis, while others were used as the need arose. Therefore, most of these expenses
2 are nonrecurring in nature.

3 DRA understands that when GSWC changed vendors, the expenses booked
4 under the prior vendor for the same purpose might appear to be non-recurring.
5 When DRA developed a five year average that normalized the trend of these
6 expenses, DRA gave such expenses due weight. For details please refer to DRA's
7 workpapers.

8 In addition, there were several other expenses that were unjustified and
9 therefore excluded. For example, GSWC used approximately 13 different legal
10 consultants over the last five years. When DRA asked GSWC for the type, a
11 description, and justifications for these outside services, GSWC responded that the
12 type of service was "Legal Services," the description was "Legal Consultant," and
13 the justification was "The GSWC does not have in-house legal counsel."

14 DRA finds the GSWC's response unsatisfactory and non-responsive.
15 Records show that most of these legal consultants were used concurrently over the
16 five year period for which no justifications or explanations of the work performed
17 by each of these legal consultants were provided. However, in instances where
18 GSWC described the types of legal services in detail; DRA included the related
19 expenses.

20 Further, DRA discovered that GSWC also booked the costs for several
21 vendors that provided similar services elsewhere e.g. in Miscellaneous Account,
22 Supply Account, G.O. Maintenance Account, Injuries & Damages and Pension &
23 Benefits Account.

24 For example, similar expenses for the vendors such as American Council
25 on Education; printing costs services from Browne of Los Angeles, Inc.;
26 investment-related news and dividend related services from Business Wire;
27 services from California Water Association; webcasting services from CCBN.com
28 Inc.; and shareholder services from Chase Mellon Shareholder, etc., were booked
29 under Miscellaneous Expense Account.

1 Similarly, the expenses for building maintenance from Combs Merle;
2 expenses related to Software, Hardware and web services from Creative Response,
3 Inc.; expenses related to daily cleaning services from Encore Maintenance
4 Services, Inc.; expenses related to Computer software vendor support from
5 Engsoft Solutions; and expenses related to JDE programming from Gandom Com,
6 etc., were booked under G.O. Maintenance Account.

7 In the year 2001 and 2002 GSWC made reclassification adjustments of
8 \$62,099, and \$29,906 respectively in its Outside Services Account. This fact
9 corroborates DRA's understanding that the expenses are booked improperly into
10 Outside Services Account. No such reclassifications were made in the year 2003,
11 2004 and 2005. While some of the above mentioned expenses were booked in the
12 Outside Service Accounts during these years too. Because GSWC bases its future
13 cost estimates on 2005 expenses, it is more likely that estimates for this account
14 are inaccurate. Therefore, DRA excluded all such expenses from its analysis.

15 **P. Miscellaneous Expenses**

16 GSWC requested \$2,009,400 for the Miscellaneous Expense in the Test
17 Year 2007 whereas DRA recommends \$1,415,601.

18 The difference is mainly due to the different estimation methodology used
19 by GSWC and DRA. GSWC used a various estimation methods such as last year
20 recorded expenses, so called "zero-based" estimations.

21 DRA believes that historical five years recorded expense data is more
22 appropriate to evaluate the trend on which the future estimates should be based.
23 DRA carefully evaluated the five years historical expense data and found out that
24 the miscellaneous expenses in the year 2001 were \$870,980 while in 2002 they
25 were \$952,600. While they were \$1,410,300, \$1,311,275, and \$1,468,444 in
26 2003, 2004, and 2005 respectively. Therefore, a uniform trend exists between
27 these years while the values in 2001 and 2002 are too low and should therefore be
28 excluded.

1 In addition, DRA noticed that dues for several organizations involved in
2 political lobbying activities were also booked under Miscellaneous Expense
3 Account as follows:

4 **National Association of Water Companies (NAWC):** This organization
5 is based in Washington D.C. Its sole purpose is political lobbying in the nation's
6 Capitol. GSWC pays annual dues based upon a formula that calculates
7 membership. Using estimated revenue in the amount of \$202,986,100 in 2006,
8 DRA calculated the estimated membership fee in the amount of \$121,857. DRA
9 believes that such activities should not be paid for by the ratepayers. Therefore,
10 DRA excluded the cost of the membership from the Miscellaneous Expense
11 Account.

12 **California Foundation on the Environment and Economy (CFEE):**
13 This organization is actively involved in lobbying utilities' interests before the
14 policy makers and does not necessarily champion the cause for the ratepayers. In
15 addition, the GSWC is also member of a wider organization, the California Water
16 Association (CWA), which provides forums for sharing best practices, and
17 promotes sound, reasonable, and science-based policy making by regulatory
18 agencies.

19 DRA believes that the GSWC's membership in CWA is crucial given the
20 larger focus of the organization that includes both operations and lobbying
21 activities which makes GSWC's membership in CFEE redundant and unnecessary.
22 Therefore, DRA excluded the annual cost of \$15,000 membership from its
23 analysis.

24 **American Council on Education (ACE):** Due to the GSWC's in-house
25 Employee Development University (EDU), the company needs to maintain its
26 membership in this organization which for the most part, provides accreditations
27 to various courses offered in-house. The average membership dues are \$1,385 per
28 year.

1 As DRA discussed above, the GSWC's in-house university is a not a cost-
2 effective solution to the GSWC's personnel training needs, and therefore should
3 be dissolved. Therefore, once the EDU function is seized; there is no need to
4 maintain membership in ACE.

5 **Q. Maintenance of General Plant**

6 GSWC requested \$793,300 for the Maintenance of General Office expense
7 in the Test Year 2007 whereas DRA recommends \$723,083.

8 The difference is mainly due to the different estimation methodology used
9 by both the GSWC and DRA. The GSWC took the average of the last four years
10 recorded expenses and then escalated the value to that of the Test Year 2007.

11 DRA believes that historical five years recorded expense data is important
12 in order to evaluate the trend on which the future estimates should be based. DRA
13 carefully evaluated the five years historical expense data and found out that the
14 Maintenance expenses in the year 2001 were \$466,346, in year 2002 the expenses
15 were \$653,700, and in the year 2004 they were \$810,874. For the other years they
16 were \$630,000 and \$639,008 in the year 2003, and 2005 respectively. Therefore,
17 a uniform trend exists between these years while the values in the year 2001 and
18 2004 are too erratic and deviate from the uniform trend. In addition, depending
19 upon the information provided by GSWC, as it is discussed below, year 2002
20 expenses include some of non-recurring expenses. Therefore, DRA excluded year
21 2001, 2002, and 2005 from its analysis.

22 The data in this account presents what is known as "roller coaster" effect.
23 The year 2001 shows a fairly low level of expenses when compared to the other
24 recorded years. However, the data in year 2003 is lower than the year 2002. It
25 appears that expenses for this category peaked in the year 2004 when compared to
26 the other recorded years over the 5 year period. However, the data takes a
27 downward trend in the year 2005, the latest year. DRA asked GSWC to indicate
28 the reasons behind such variances in the expenditures in this account. GSWC
29 response to DRA Data Request AMX-10, revealed that in both 2002 and later in

2004, a number of activities were carried out that are Non-recurring which explains the yearly hike in the expense data, particularly in the year 2004.

For example, in year 2002 GSWC upgraded its IBM Model 170 to Model 820. In the same year lighting retrofit was completed. Similarly, in the year 2004 IBM As/400 Model 730 was upgraded to more powerful Model 830, and a GSWC replaced a gate operator, sand blasted, scraped and painted the wrought iron security gates and fences all around the General Office building. In addition, potholes in the parking lot were repaired and the entire lot was resurfaced and re-striped. Most of these expenses present a nature of non-recurring activity.

Give the erratic nature of the expense data in the five historical recorded data; it is not reasonable to use a five or four year average for future estimates. DRA therefore believes that the data in the year 2003 and 2005 more appropriately depict the uniform level of expenses in this account and must be used to calculate the future expenses.

R. Rent Expense

GSWC requested \$246,300 for the Rent expense in the Test Year 2007 whereas DRA recommends \$21,748.

The difference is mainly due to the fact the GSWC included an additional annual cost of \$205,200 in its estimates for the additional space it claims it needs due to the space shortage at the General Office. DRA excluded any such costs in its analysis.

GSWC failed to support the claimed space shortage. In response to DRA deficiency data request 4.118, GSWC claimed that the designer of the General Office could not foresee the inclusion of a *fully staffed* Customer Service Center and the Employee Development University.

Faulty planning on GSWC's part should not burden the ratepayers. Second, GSWC's five CSRs out of total of 21 are working from home as "teleworkers" and the ratepayers are paying for the cost of establishing a "home-workstation" for these five positions. Third, as discussed earlier in this Report, the

1 need for “fully staffed” Customers Service is growing due to GSWC’s
2 involvement in Non-regulated businesses and not due to increases of its regulated
3 California operations. Fourth, if DRA’s recommendations to close the EDU are
4 adopted, more space will become available. Last, if DRA recommendations to
5 reduce the staff level at General Office are approved, this will also increase the
6 availability of space at the General Office.

CHAPTER 3: RATEBASE

GSWC requested a weighted average ratebase of \$21,894,945 for the Test Year 2007 and \$24,703,791 for the Attrition Year 2008, whereas DRA recommends a weighted average ratebase of \$10,201,578 for the Test Year 2007 and \$9,234,468 for the second rate base Test Year in 2008.

The difference is mainly due to DRA's recommendations disallowing several of the Company's requested capital projects, working cash items, and Construction-Work-In-Progress (CWIP) estimates.

A. Capital Projects in year 2006

The year 2006 is the estimated year for this Application. The Company requested an overall amount of \$7,338,800 for its capital expenditure in the year 2006 whereas DRA recommends an amount of \$2,471,833. Following are the details of DRA recommendations:

1. New CIS/CRM System

GSWC requested to install a new Customer Information System (CIS)/Customer Relationship Management (CRM) System in its Customer Service Center Department for the total cost of \$9,100,000 (without overheads), with \$2,982,841 of the total requested as Phase 1 of the installation in the year 2006.

GSWC argues that the existing CIS System was installed in 1994; however, the System itself was developed back in 1977. The old System was based upon Report Program Generator (RPG) software language which now is becoming obsolete and would be too costly to adapt it to the Company's changing needs in the current years. The Company goes on to explain that how the new System will enhance the Company's customers service capabilities and save training and vendor support costs. Overall organizational efficiencies would also improve when the new System will offer increased inter-organizational information

1 exchange between other departments such as Accounting & Finance, Meter
2 Reading, Maintenance etc, and Human Resources.

3 However, the Company failed to present reasonable cost estimates at this
4 time. GSWC is currently planning to hire an outside CIS consultant to assist the
5 Company in evaluating, selecting, and implementing a new CIS System.
6 However, no Request-For-Proposal (RFP) has been issued so far, and the only cost
7 estimates that are presented are generic and derived from data on a few CIS related
8 Consultants' websites.

9 On the other hand, the Company fully utilizes its Customer Service Center
10 resources to serve a great number of customers in its Non-regulated businesses.
11 For example, currently the Company is serving approximately 74, 270 Non-
12 regulated customers under Customer Service Contracts, and the numbers are
13 growing. The Company constantly pitches its "state-of-the-art" Customer Service
14 Center to attract more Non-regulated business. The following is an excerpt from
15 the GSWC's parent company, American States Water Company's website
16 regarding ASUS:

17 Customer Service is greatly enhanced through the
18 Customer Service Center which enables customers to
19 reach courteous, skilled, representative 7 days a week,
20 24 hours a day. Customers call a toll-free telephone
21 numbers and have an option to speak to a customer
22 service representative or to access account information
23 through an automated system. State-of-the-art
24 communications technology enables representatives to
25 provide quick and efficient responses to customer
26 inquiries. The Customers Service Center is the
27 premium call center for water utility companies
28 throughout Californian

29
30 What is the driving force behind the need of replacing existing CIS
31 System? Is it the obsolete software language or the demand that the Non-
32 regulated businesses are putting on the Company? For example, in one of its Non-

1 regulated contracts with City of Torrance, the City puts the following stringent
2 Customer Service Performance Standards on the Company:

3 (8) Comply with the following Customer Service performance
4 standards:

- 5
- 6 ○ A live representative will answer 70% of all incoming calls within
7 sixty seconds or less.
- 8
- 9 ○ A live representative will answer the majority of the remaining calls
10 in a timely manner.
- 11
- 12 ○ The percentage of customers who hang up prior to having their call
13 answered will be no more than 7% (Abandon Rate) of all incoming
14 calls. Penalties will be applied in case on noncompliance.
- 15
- 16 ○ The Company will make every effort possible to answer the City of
17 Torrance telephone calls to meet or exceed Company's own
18 answering rate of 80% of its call within 40 seconds or less and
19 maintaining and Abandon Rate of 5% or less.
- 20
- 21 ○ In the event the Company enters into a contract with another entity
22 resulting in higher performance standards that this agreement then
23 the City's performance standard will be adjusted upwardly to the
24 level of the other entity.
- 25

26 In addition, the City demands online access to its customers' accounts to
27 read and put additional notes in those accounts. The City also requires to be
28 available online a rolling 3-year history of customer account information,
29 including customers notes, dollars amounts, and water consumption in increments
30 of hundred cubic feet.

31 It is therefore evident that replacing the existing CIS System must take the
32 Non-regulated related costs into account. Currently, GSWC based its generic
33 costs only on the number of regulated customers; however, once the new System
34 is installed it will also be used to service the Non-regulated businesses needs.

35 The current costs estimates are too generic and too preliminary, rendering
36 approval of this project at this stage not good sense. It would be more prudent to

1 evaluate the cost estimates that will be put forth in a formal RFP from the
2 Company's CIS consultants. At that time a reasonable evaluation on the
3 capabilities and features of the new CIS System along with the Company's
4 internal, regulated and external, Non-regulated needs could effectively be
5 measured.

6 Further, DRA discovered that over the years, the Company has not been
7 prudent with its authorized budget for IT related projects For example, in its 1998
8 GRC application, A.98-03-029, GSWC requested an IT related project regarding
9 its JDE software upgrades in the amount of \$309,375. However, the project grew
10 to \$1,391,000 in 2002. In its 2002 GRC application, A.02-11-007, GSWC did not
11 include a single line of explanation of how this cost increase came about. The
12 Company simply reported the increased cost estimates as part of its CWIP
13 numerical values.

14 The generic nature of the cost estimates, the question of Non-regulated
15 businesses, and the Company's history of imprudence, all call for the disallowance
16 of this project until a reliable and reasonable cost estimates are known which can
17 enable DRA to evaluate the project features in relation to test their reasonableness
18 as regarding the regulated and Non-regulated businesses.

19 **2. Employee Development University's related** 20 **Projects**

21 GSWC requests several capital project expenditures for its in-house
22 Employee Development University (EDU). GSWC requested an overall capital
23 expenditure related to EDU in the amount of \$129,000 in 2006; \$226,500 in the
24 Test Year 2007; and \$208,000 in the second Test Year 2008.

25 As discussed earlier in the General Office Expense section of this Report,
26 DRA finds that the Company's in-house EDU function is not cost effective. The
27 EDU should be replaced by the Company's Human Resources' Department which
28 could work with outside professionals to fulfill the training needs of the

1 Company's personnel. Therefore, DRA recommends disallowing all EDU related
2 capital expenditures.

3 **3. Workstations replacement (Acct/Finance)**

4 GSWC requested to replace 10 workstations (mostly PCs and monitors)
5 within its Accounting & Finance Department for the amount of \$17,100, in 2006,
6 and \$17,800 in each year, 2007 and 2008. However, DRA recommends only
7 \$11,400 in 2006 and \$11,867 in each year, 2007 and 2008.

8 Given the recommended level of staff in the Accounting & Finance
9 Department and the average three year life of such workstations, the Company
10 only needs to replace 7 instead of 10 workstations for a single year.

11 **4. Three New Workstations (Acct/Finance)**

12 GSWC requested a total of \$5,100 in 2006 for three new workstations for
13 three new positions. Because DRA disallows several requested new and existing
14 positions in the Accounting & Finance Department, there is no need for these new
15 workstations. The workstations replacement expenditure recommended in the
16 above section will be sufficient for the recommended level of staff in Accounting
17 & Finance Department.

18 **5. Desktop Printers Replacement and New** 19 **Printers**

20 GSWC requested a total of \$6,700 capital expenditure in 2006 for the
21 purpose of replacing existing desktop printers, and to purchase three new desktop
22 printers for the three new employees. However, DRA recommends an amount of
23 \$2,233, because several new and existing positions should be disallowed. The
24 ratio of desktop printers to the recommended level of staff justifies replacement of
25 only 3 printers.

26 **6. Furniture Replacement (Acct/Finance)**

27 GSWC requested an amount of \$6,200 in the year 2006 to replace the worn
28 and aged furniture. However, the Company does not provide support for the

1 existing conditions and age of the furniture being replaced. During its field trip,
2 DRA observed some of the furniture that was requested for replacement in other
3 areas of the General Office. In general, DRA found the furniture in good
4 condition with only minor wear and tear. Therefore, based upon this general
5 observation and the lack of Company's support for its request, DRA recommends
6 disallowing the replacement of furniture for its Accounting & Finance
7 Department.

8 **7. Capital Expenditure for Capital Project** 9 **Department**

10 GSWC requested a total of \$68,000 capital expenditures in 2006 and
11 \$10,200 in the Test Year 2007 for its new Capital Project Department.

12 As DRA recommends disallowing the newly requested Capital Project
13 Department and Capital Project Manager position, which was discussed in the
14 General Office Expense section of this Report. The capital expenditures
15 associated with this new Department and position, were not proved as necessary
16 and reasonable. Therefore, DRA recommends disallowing these capital
17 expenditures.

18 **8. Conservation Database**

19 GSWC requested a total of \$278,400 for the purpose of building an integral
20 conservation program database within its customer service database to target and
21 track conservation efforts throughout the Company. The amount of \$44,800 was
22 requested in year 2006, \$101,400 in year 2007, and \$132,200 in year 2008.

23 The Company further added under the section titled "Scope of Work:
24 Phase 1" of its testimony that the Company will coordinate with Customer Service
25 to design the tool per existing and future CIS/CRM database criteria.

26 As DRA recommend disallowing the new CIS/CRM System project until
27 the cost estimations and the possible cost allocations between its regulated and
28 non-regulated operations can be reasonably evaluated. It is only logical to develop
29 the conservation database when the CIS/CRM System's capabilities are finalized.

1 The recent focus on the revenue decoupling from water sales to provide
2 incentives for the utilities because of lost sales due to conservation efforts and the
3 related demand management techniques, require accurately measuring direct effect
4 of conservation on the utility's revenue stream. GSWC testimony fails to explain
5 how the conservation database impacts its revenue stream. For example, the
6 Commission would like to know the relation between dollars spent on
7 conservation and expected reduction in water sale revenues.

8 Therefore, due to the interdependent nature of Conservation Database with
9 the proposed new CIS/CRM System, and current lack of details on capabilities of
10 Conservation Database in measuring and quantifying conservation efforts, DRA
11 recommends disallowing the project at this time.

12 **9. Replacement of 25 PCs in Customer Service** 13 **Center (CSC)**

14 GSWC requested a mount of \$42,700 in the year 2006 for the purpose of
15 replacing 25 PCs in its Customer Service Center, whereas DRA recommends only
16 \$17,649. Because DRA recommends disallowing several new and existing
17 positions in Customer Service Department, which was discussed in the General
18 Office Expense section of this Report, the recommended staff of 31 only warrants
19 replacement of 10 PCs instead of 25 in year 2006.

20 **10. Office Space for new Workstations (CSC)**

21 GSWC requested an amount of \$71,600 in the year 2006 for the purpose of
22 having new workstation for the new staff. Because DRA recommends disallowing
23 several new and existing positions in Customer Service Department, as discussed
24 earlier in the General Office Expense section of this Report, the recommended
25 number of staff does not warrant the addition of new workstations.

26 **11. Two new PC Workstations (Human** 27 **Resources)**

28 GSWC requested an amount of \$3,400 in year 2006 for the purpose of
29 having two workstations for two new proposed positions of employees in Human

Resources Department. Because DRA recommends disallowing several new and existing positions in Human Resource Department, as discussed earlier in the General Office Expense section of this Report, the recommended number of staff does not warrant addition of new PC Workstations.

12. Office Workstation (Human Resources)

GSWC requested an amount of \$10,400 in year 2006 for the purpose of building two new Office Workstations for two of its new proposed positions of employees in Human Resources Department. Because DRA recommends disallowing several new and existing positions in Human Resource Department, as discussed earlier in the General Office Expense section of this Report, the recommended number of staff does not warrant addition of new Office Workstations.

13. Re-tile & re-fixture 2 bathrooms (Information Technology)

GSWC requested an amount of \$58,000 in the year 2006 for the purpose of remodeling two of the existing bathrooms. However, during its field trip, DRA observed that the bathrooms were overall in a good condition and do not need the re-tile and re-fixture work as requested by the Company.

14. Replace Countertop in Cafeteria and Mailroom (Info. Tech.)

GSWC requested an amount of \$7,900 in year 2006 for the purpose of replacing countertop in its Cafeteria and Mailroom. However, during its field trip, DRA observed that the countertops were overall in a good condition and do not need replacing as requested by the Company.

15. Replacement of Banc Tech Cash processing unit with Imaging feature (Info. Tech.)

GSWC requested an amount of \$357,900 in year 2006 for the purpose of purchasing new Banc Tech Cash processing equipment.

1 The Company argues that the current Banc Tech Cash processing
2 equipment lacks capabilities of creating images of the checks. Company added
3 that in October of 2004 Federal legislation, "Check 21," went into effect allowing
4 for an image replacement document. With in the next few years it is expected that
5 banks will no longer accept physical checks from the Company.

6 However, Company failed to provide any support for the growing pressure
7 from the Company's banking services for the use of this equipment. Therefore,
8 DRA believes that it is too early for such capital expenditure, and recommends
9 disallowing the project.

10 **16. Capital Expenditure related to Internal** 11 **Auditors**

12 GSWC requested a total amount of \$18,100 in the year 2006 and \$6,400 in
13 the year 2007 for the purpose of buying PCs and Office furniture replacement for
14 its Internal Auditors. DRA finds that because of the nature of their work, Internal
15 Auditors should be part of the Company's parent company, American State Water
16 Company. GSWC's own organizational structure and reporting relationships
17 show that the Internal Auditors report to the Board of Directors. Therefore, DRA
18 recommends disallowing all Internal Auditors related capital expenditures.

19 **17. Capital Expenditure related to Workstation** 20 **and Office furniture for Preventive** 21 **Maintenance**

22 GSWC requested a total amount of \$19,000 in the year 2006, and \$5,100 in
23 the year 2007 for the purpose of purchasing workstations and office furniture for
24 the Manger of its Preventive Maintenance Department that works out of Region-I
25 and consists of only 2 persons, a manager and an assistant.

26 The Company however failed to explain how this Manager and his single
27 assistant managed to work until now without workstation and office furniture. In
28 addition, because of their preventive maintenance work, this staff is mostly out in
29 the field performing maintenance related work. Due to lack of justifications for

1 the need of these workstations, DRA recommends disallowing these capital
2 expenditures.

3 **18. Safety & Testing Equipment (Risk**
4 **Management Dept.)**

5 GSWC requested a mount of \$28,000 in the year 2006, \$20,900 in the year
6 2007, and \$12,500 in the year 2008 for the Safety and Testing Equipment, whereas
7 DRA recommends an amount of \$5,700 in each of the years, 2006, 2007, and
8 2008.

9 The Company claims that the Safety and Testing Equipment is consists of
10 Automatic External Defibrillators (AEDs) that provide real-time response to
11 individuals who may experience heart stoppage or related heart problems during
12 the work assignments.

13 However, the Company's record submitted in response to DRA Master
14 Data Request question IIA.3 shows that the Commission authorized a budget of
15 \$21,560 for the year 2003 and 2004 each for the same category of capital
16 expenditures in the Risk Management Department. However, the Company only
17 spent \$5,300 in year 2003 and \$5,700 in the year 2004. This historical "under
18 spending" indicates that the Company needs may not be as high as claimed. DRA
19 therefore, recommends allowing only the actual historical expense in the amount
20 of \$5,700 for each of the years, 2006, 2007, and 2008.

21 **19. Workstation with Furniture and PC**
22 **Workstation (Risk Management)**

23 GSWC requested an amount of \$10,200 in the year 2006 for the purpose of
24 purchasing workstation and office furniture such as file cabinets etc. and a PC for
25 \$1,700 for a new employee in the Risk Management Department, whereas DRA
26 recommends \$5,100.

27 Because DRA recommends eliminating the Risk Management Department
28 and moving some of the existing employees to Human Resources Department, as
29 discussed earlier in the General Office Expense section of this Report, there is no

1 need for the new office furniture, workstation, or PC. However, the need for
2 office cabinets is justified, and DRA recommends half of the requested amount for
3 the purchase of the file cabinets.

4 **20. Security, Global Positioning System (GPS)** 5 **Feature**

6 GSWC requested an amount of \$217,600 in the year 2006 for the purpose
7 of purchasing Global Positioning System (GPS) for all of the Company's vehicles.

8 GSWC claimed that the after September 11, 2001 terrorist attack, company
9 began a systemic review of additional security actions that would be taken to
10 prevent effects of terrorist attack on water resources. The Company added that it
11 believes that a vehicle tracking system for all of its employees using Company's
12 vehicles would be an important feature. In addition, to providing security for its
13 employees, the Automatic Vehicle Locator system would also improve the
14 customer service by enabling the Company to pinpoint those of its field employees
15 who might be closest to the site of emergency.

16 DRA found that the Company's employees are already making use of
17 cellular telephones and handheld devices to send real-time data from various field
18 locations. In addition, usually the managers and supervisory staff are well aware
19 of the location of its crews in the field. Therefore, DRA recommends disallowing
20 this project expenditure.

21 **21. Furniture Replacement (Water Quality-VP)**

22 GSWC requested an amount of \$13,400 in the year 2006 for the purpose of
23 replacing office furniture for the Vice President of its Water Quality Department.
24 However, the Company does not provide support for the existing conditions of the
25 furniture. During its field trip, DRA observed some of the furniture that was
26 requested for replacement in other areas of the General Office. In general, the
27 furniture was in a good condition with minor signs of wear and tear. Therefore,
28 based on DRA's observation during the filed trip and the Company's lack of

1 justification for its request, DRA recommends disallowing the replacement of
2 furniture for its Vice President of Water Quality.

3 **22. Auto Replacement (Info.Tech.)**

4 GSWD requested an amount of \$39,000 in the year 2006 for the purpose of
5 replacing a pool van used by Information Technology staff. However, the
6 Company did not provide any data regarding the existing condition of the van it
7 proposes to replace. DRA, therefore, recommends disallowing this request.

8 **B. Capital Projects in year 2007:**

9 The year 2007 is the Test Year for this application. The Company
10 requested an overall amount of \$4,837,100 for its capital expenditures in the Test
11 Year. Instead, DRA recommends an amount of \$1,281,100. Some of the capital
12 projects were split over a three year period and consequently were discussed in the
13 year 2006 section. Following are the details of DRA recommendations for the
14 proposed projects in the year 2007:

15 **1. Enterprise One –Additional Web Modules**
16 **Upgrades (Acct/Finance)**

17 The Company requested an amount of \$68,700 in the year 2007 for the
18 purpose of upgrading its Enterprise One Web Module.

19 For its capital expenditure in the year 2006, the Company requested
20 \$490,700 for the purpose of making a shift from existing J.D.Edwards Xe
21 (Enterprise One) to ERP 8.11, to avoid practical difficulties in the near future
22 when the vendor might not support the existing Enterprise One software. DRA
23 accepted the project for the year 2006.

24 However, for its year 2007 capital expenditures, the Company is requesting
25 additional funds for the Enterprise One project based upon an assumption that as
26 the time passes, the Company will grow, and new users would need upgrades and
27 additional servers would be needed.

1 On the other hand, DRA observes that the Company did not provide any
2 data justifying the increase in the number of users over the years. No information
3 is provided regarding the number and identity of the initial users. Similarly,
4 growth in number of the users was unexplained or how the growth was
5 specifically calculated. Due to the absence of all such data, DRA recommends
6 disallowing the project.

7 **2. ShowCase Vista Software Upgrades**
8 **(Acct/Finance)**

9 GSWC requested an amount of \$28,500 in the year 2007 for the purpose of
10 purchasing the new users' licenses. However, the Company did not provide any
11 data identifying additional users and how their number was estimated. Similarly,
12 the information regarding the existing users is also absent. The Company needs to
13 show what the significance of this software was, and how the use of this software
14 is desirable for others in the Company. Due to the lack of such pertinent
15 information regarding this project, DRA recommends disallowing the project.

16 **3. EAM Graphical Interface Enhancement**
17 **(Acct/Finance)**

18 GSWC requested an amount of \$62,500 in the year 2007 for the purpose of
19 adding new users.

20 For its capital expenditures in the year 2006, the Company requested to
21 install Equipment Assets Management (EAM) System for \$107,400. The
22 Company claims that the EAM system will facilitate the search for the Company's
23 fixed assets as the existing EAM System is not Graphical. DRA accepted the
24 project for the year 2006.

25 However, the Company did not provide any supporting information
26 identifying the additional users and how their number was estimated. Similarly,
27 the information regarding the existing users is also absent. The Company needs to
28 show that what factors give rise to the claimed usage and at what rate. Due to the

1 absence of such pertinent information, DRA recommends disallowing the EAM
2 Graphical Interface project.

3 **4. Re-tile & Re-fixture 2-Bathrooms (Info.**
4 **Tech.)**

5 GSWC requested an amount of \$60,500 in the year 2007 for the purpose of
6 remodeling two additional bathrooms in the General Office. DRA during its field
7 trip observed the condition of the bathrooms and found that they were in good
8 condition and would not require any remodeling for sometime. Therefore, DRA
9 recommends disallowing the project.

10 **5. Replace Cafeteria Furniture (Info. Tech.)**

11 GSWC requested an amount of \$5,700 in the year 2007 for the purpose of
12 replacing existing Cafeteria Furniture. During its field trip, DRA observed the
13 Cafeteria furniture and found it in reasonably good condition. Therefore, DRA
14 recommends disallowing the project.

15 **6. Replace 12-year old Office Furniture**
16 **(Info.Tech.)**

17 GSWC requested an amount of \$27,100 in the year 2007 for the purpose of
18 replacing office furniture throughout the common area in the General Office.
19 During its field trip, DRA observed that generally, the office furniture appeared in
20 good condition and there is no immediate need for replacement. Therefore, DRA
21 recommends disallowing the project.

22 **7. Compliance Software--Phase-1(Water**
23 **Quality)**

24 GSWC requested an amount of \$27,000 in the year 2007 for the purpose of
25 preparing analyses for up coming UCMRII rule of USEPA.

26 However, the Company indicated that USEPA has not finalized the rule. In
27 addition, the Company did not show with supporting data what role this software
28 plays in analyzing the Rule's requirements. DRA believes that it is premature for

1 this type of expenditure without having the final rules in place. Therefore, DRA
2 recommends disallowing this project at this time.

3 **8. Auto replacement ---Pool Van (Info.Tech.)**

4 GSWC requested an amount of \$ 40,700 in the year 2007 for the purpose of
5 replacing the pool van in the General Office. However, the Company did not
6 provide any data showing the condition of the current pool van. DRA, therefore,
7 recommends disallowing the project.

8 **C. Capital Projects in year 2008**

9 The year 2008 is the Attrition Year for this application. The Company
10 requested an overall amount of \$4,627,000 for its capital expenditures in this year;
11 whereas DRA recommends an amount of \$367,217. Some of these projects were
12 phased in over three years and are already discussed in the year 2006 section
13 earlier. Following are the details of DRA recommendations for the proposed
14 projects in the year 2008:

15 **1. Enterprise One –Additional Web Modules**
16 **Upgrades (Acct/Finance)**

17 The Company requested an amount of \$67,200 in the year 2008 for the
18 purpose of upgrading its Enterprise One Web Module, whereas DRA recommends
19 \$33,600.

20 For its capital expenditure in the year 2006, the Company requested
21 \$490,700 for the purpose of making a shift from existing J.D.Edwards Xe
22 (Enterprise One) to ERP 8.11, to avoid practical difficulties in the near future
23 when the vendor might not support the existing Enterprise One software. DRA
24 accepted the project for the year 2006.

25 However, for its year 2007 and 2008 capital expenditures, the Company is
26 requesting additional funds for this Enterprise One project because as the time
27 passes, the Company will grow and new users would need upgrades and additional
28 servers would also be necessary.

1 However, the Company did not provide any meaningful supporting data
2 justifying the increase in the number of users over the years. No information was
3 provided regarding how many and who are the initial users. No data explains the
4 growth in number of users and how this growth is specifically calculated. Because
5 of this lack of data and justification, DRA recommends disallowing this request.

6 However, in 2008, the project will be in its third year of operations. DRA
7 believes that some accommodation for new users or general upgrade is reasonable,
8 and recommends allowing half of the requested amount, i.e. \$33,600.

9 **2. HR Self-service Enhancement (Acct/Finance)**

10 GSWC requested an amount of \$61,100 in the year 2008 for the purpose of
11 adding new users for HR Self-Service Software whereas DRA recommends
12 \$30,550.

13 The Company has proposed to install the HR Self-service software in the
14 year 2006 for \$267,500. DRA accepted the original installation in the year 2006.

15 However, DRA finds the Company request for additional \$61,100 funds in
16 year 2008 to add new users in year 2008, is without support. The Company did
17 not provide any data justifying the increase in the number of users over the years.
18 No information explained how many and who are the particular initial users. No
19 information explained the growth in users and how the growth is specifically
20 calculated.

21 However, in 2008, the project will be in its third year of operations. DRA
22 believes that some accommodation for new users or general upgrade is reasonable
23 and recommends allowing half of the requested amount, i.e. \$30,550.

24 **3. Replace 5 Workstations (Info. Tech.)**

25 GSWC requested an amount of \$8,900 in the year 2008 for the purpose of
26 replacing 5 PC workstations. However, DRA notices that this is the second
27 request for the Workstation replacement in the same year. DRA already accepted
28 one request to replace 5 Workstations in the Information Technology Department.

1 Given the proposed level of 18 staff in the Information Technology Department,
2 the replacement of 10 workstations in a year is unreasonable. Therefore, DRA
3 recommends disallowing this second set of 5 Workstations.

4 **4. Compliance Software—Phase-2 (Water** 5 **Quality)**

6 GSWC requested an amount of \$26,400 in the year 2008 for the purpose of
7 purchasing software that would facilitate tracking upcoming analysis for the
8 Stage 2 Disinfection Byproduct Rule, and the Long-term 2 Enhanced Surface
9 Water Treatment Rule.

10 However, the Company indicated that USEPA has not yet finalized the
11 Rules. In addition, the Company did not provide any data that explained the role
12 this software plays in analyzing the Rules' requirements. It is too early for this
13 type of expenditure. Therefore, DRA recommends disallowing this project at this
14 time.

15 **D. Contingency Charge**

16 GSWC requested to surcharge all of its Capital Expenditure (except
17 CIS/CRM System project) a contingency percentage of 5% in 2006, 2007, and
18 2008.

19 DRA disagrees with the proposed contingency percentage. It is quite
20 evident from the nature of these Capital projects that the most of the projects are
21 straightforward purchases, and the only uncertainty that could arise is price
22 inflation. For the most part, the Company has taken into account the inflation of
23 prices in the future years when preparing its estimates. Instead DRA recommends
24 that a lower percentage of 2.5% for contingency.

25 **E. Overhead Rate**

26 It should be noted that the above analysis of capital expenditures includes
27 the GSWC's requested overhead rates of 21.8%, 24.9% and 22.1% respectively
28 for the years 2006, 2007, and 2008 for its capital project in General Office and

1 Region-II. Correspondingly, DRA recommends overhead rates of 27.85%,
2 34.85% and 42.41% for the years 2006, 2007, and 2008. DRA adjusted the values
3 of these capital expenditures as these values were used in its final calculation of
4 recommended weighted average ratebase. Please refer to the “Overhead Rate
5 Study” section of this Report for more details.

6 **F. Operational Savings**

7 GSWC did not propose any quantitative savings that could result from
8 various capital projects in the General Office. However, in its testimony that was
9 submitted in the support for the various projects, GSWC claimed that the projects
10 would increase efficiency, save time, and improve the quality of the services. But
11 the Company failed to provide a quantitative value for the savings. For example,
12 while supporting its proposed project of “Contract Management Migration from
13 Citrix to Web Project” in the year 2006, GSWC stated:

14 ...the Web deployment architecture will be more
15 efficient and will reduce the cost associated with
16 Win32 (fat Client) and Citrix/TSE maintenance and
17 deployment. Maintenance will be simplified without
18 the need to install outside software.

19 Similarly, for its proposed project “Migration of Enterprise One from XE to
20 WRP8.11,” the Company stated:

21 Migration to Enterprise One 8.11 ensures a single code
22 set and database. With this, Maintenance and support
23 will be simplified and unnecessary, cost saving, disk
24 space will be restored. The PeopleSoft Enterprise One
25 8.11 release has a proven, efficient web deployment
26 architecture that reduces the cost associated with
27 Win32 (fat Client) and Citrix/TSE maintenance and
28 deployment.

29 However, the Company did not quantify any cost savings at all. Given the
30 IT related nature of most of the recommended capital projects, it is unreasonable
31 not to have operational savings. Therefore, DRA imputes an operational saving of
32 20% on the selective projects. These savings are in the amount of \$297,080,

1 \$156,780, and \$16,680 for the years of 2006, 2007 and 2008, respectively. These
2 saving are deducted from the Company's General Office expenses in the
3 respective years.

4 **G. Construction Work In Progress (CWIP)**

5 GSWC requested an amount of \$1,509,784 related to CWIP to be closed in
6 the Plant section for the purpose of calculating its weighted average ratebase.
7 DRA recommends an amount of \$428,144.

8 GSWC's approach to CWIP amount is unreasonable. Other utilities, such
9 as Gas and Electric, are not allowed to earn a rate of return on their CWIP dollars,
10 and CWIP is not included in ratemaking calculations for the non-water utilities.
11 However, Commission allows water utilities to earn a rate of return on the CWIP
12 dollars. The rationale for this is that typically water utility capital projects are
13 comparatively simple, and are expected to be completed and become useful within
14 a year. It is therefore, only reasonable to provide earning opportunity to Water
15 utilities for their investment in the project that are under construction.

16 However, there are several things wrong with GSWC's approach to CWIP.
17 First, the Company improperly includes in its CWIP account the purchase of
18 personal computers, fax machines, printers, vehicles, software, or other purchases
19 that should not be treated as a project under construction (work in progress).

20 Second, several unfinished or postponed projects are kept in the CWIP
21 account to earn rate of return for years. When the Commission authorizes a
22 project; it is approved for a specific amount and a specific period of construction.
23 When the Utility fails to comply with the Commission authorized amount and
24 period of construction and keeps the unfinished project in CWIP, this is an abuse
25 of the CWIP account for ratemaking purposes.

26 For example, in 1998 the Company in its GRC application, A.98-03-029
27 requested an IT related project, J.D.Edwards System Upgrade in its Accounting &
28 Finance Department. The original project was broken down into four sub
29 categories, and a total of \$309,375 was requested for the completion year 2000.

1 The Company did not complete the project in the year 2000. During the next GRC
2 application, A.02-11-007 in 2002, the Company forecasted \$1,391,000 to
3 complete this project. These forecasts were not presented under “New Addition of
4 Capital Project,” and the Company provided no justification for the considerable
5 cost increase to finish the project. The new estimates were simply presented as
6 part of “Forecasted CWIP.” Going forward, the Company did not provide the data
7 for the subcategories but presented only a single total cost amount of \$1,391,000.
8 Portions of this project are still booked under CWIP, and the Company continues
9 to update its forecast and collects rate of return on these forecasted dollars.

10 In this GRC, the Company shows a recorded value of \$120,193 in CWIP.
11 This is the actual investment of the Company in the project which is still
12 unfinished. Although the Company presents no information for this project, it is
13 requesting to include a total cost of \$227,578 in the ratebase that includes
14 “Forecasted CWIP” in the amount of \$107,385.

15 The Ratepayers had pay in rates \$309,375 for the project in 1998 but
16 received no any benefits because the project remained unfinished. Then in the
17 year 2002, Ratepayers paid for another \$1,391,000 in rates for the same project
18 and once again did not receive full benefits because the project remained
19 unfinished once again. In this GRC, the Company once again is asking for rate
20 recovery of another \$227,578 for the same unfinished project. DRA says enough
21 is enough.

22 The Company also abuses the CWIP account by including capital projects
23 that were never requested by the Company or authorized by the Commission. By
24 doing so, the CWIP recorded balance increases without the Commission’s
25 oversight. Company claims “operational flexibility” which is a cover for the
26 Company to deprive the Commission of its reviewing authority.

27 On the other hand, the Company constantly spends under the authorized
28 amounts for its projects. For example, based upon the historical data Company
29 provided in response to DRA’s Master Data Request question IIA.3, in year 2003,

1 the Commission authorized a total of \$1,720,127 for capital projects and the
2 Company only spent \$650,400. In year 2004 the Commission authorized
3 \$599,429 for capital projects, and the Company only spent \$452,700. By this
4 under spending, rates are based upon higher authorized capital dollars and the
5 company's actual capital expenditure is low. Once again ratepayers are made to
6 pay for the project that never materialized.

7 Another way, the Company "double dips" is by including new projects both
8 in the CWIP and under its request for "new capital addition". Because in the end
9 both the recorded CWIP and the "new capital addition" are included in calculating
10 the Company's ratebase, the capital dollars are counted twice. For example, in
11 this GRC, Company's records show that it has included an amount of \$233,163 in
12 CWIP for a project, AS/400 Upgrade to Model 1520. The Company then included
13 an amount of \$231,800 as a new plant addition for the same project in its request
14 for year 2006 capital projects.

15 Yet another way the Company is manipulating its CWIP account for
16 ratemaking purposes is to keep collecting on the projects that are abandoned.
17 Nevertheless, the Company demands that the ratepayers will pay for these
18 unfinished projects that never become useful. For example, in its response to
19 DRA's MRD question II.A.3 the Company records show that two capital projects:
20 Mobile Computing Pilot Program, authorized for \$140,000, requested in the year
21 1998, and Storage Project, authorized for \$344,774, requested in year 2002 both
22 were discontinued. However, in this GRC, the Company requested to collect
23 \$3,708 for the Mobile Computing Pilot Program and \$2,756 for the Storage
24 Facility project.

25 Keeping all of the above mentioned reprehensive practices of the Company
26 in mind, DRA argues that a reasonable way is to analyze the Company's recorded
27 CWIP account. However, the enormous amount of projects that are booked under
28 Company's CWIP; it is humanely impossible to evaluate recorded CWIP project-
29 by-project. This is especially true for the Company's CWIP for its Districts and

1 Regions. The numbers of projects in the General Office are relatively less, and
2 one can evaluate each project. Given this difficulty it is prudent to only allow a
3 recorded level of CWIP amount in rates, because this is the amount that the
4 company actually spent on the capital projects. In addition, it should also be
5 noticed that the Company did not provide any written testimony to discuss that
6 how the projected forecasts for CWIP projects were calculated, and hence, lack
7 justifications. Therefore, DRA recommends disallowing the “Forecasted CWIP”
8 amount.

9 In addition, in the General Office, DRA evaluated each listed recorded
10 CWIP project one-by-one and rejected projects that were either not authorized by
11 the Commission and the Company added them without any justifications, or were
12 abandoned. Similarly, DRA adjusted the recorded value of some of the projects
13 that went beyond the previously authorized amounts and the Company failed to
14 provide any justifications for the increased costs.

15 **H. Working Cash: Advances---Gross ups**

16 GSWC requested an amount of \$3,680,728 in the years: 2006, 2007 and
17 2008 for the purpose of Advances-Gross ups whereas DRA recommends
18 excluding this amount.

19 Historically, the Tax Reform Act of 1986 modified section 118 (b) of the
20 Internal Revenue Code required that the value of facilities built by developers or
21 prospective customers and contributed to a utility, or paid for by developers,
22 prospective customers (contributor) and contribute to the utility, would be
23 considered ordinary income and would be taxed. Subsequently, the Commission
24 opened Order Instituting Investigation, I.86.11-019 and by Decision, D.87-09-026
25 allowed the utilities to pass these costs on to the contributors.

26 However, in 1996, the National Association of Water Companies managed
27 to repealed taxes on Contribution In Aid of Construction (CIAC) for water and
28 sewerage utilities for amounts received after June 12, 1996.

1 The Company's request for Advances-Gross ups relates to the investment
2 made prior to 1996. Commission's decision, D.87-09-026 allows the use of a
3 method, Method-5 for large water utilities to calculate the Gross-up amount. This
4 method would take into account the effect of depreciation over the life of the
5 assets and the resulting tax savings that would in turn result in lower Gross-ups.
6 However, GSWC did not provide any supporting calculations to vouch for the
7 requested Advances-Gross ups amounts.

8 Similarly, the Company, included credits in the amounts of \$145,076,
9 \$197,982, and \$250,898 for the years: 2006, 2007, and 2008 respectively for
10 Advance-Gross ups in its calculations for Region-II Working Cash. Once again
11 the supporting details and methodology was not provided. Without such details,
12 DRA cannot assess the accuracy and reasonableness of the requested amounts
13 relating to Advances-Gross ups, and therefore recommends disallowing both the
14 charges in General Office, and the credits in Region-II relating to Advances-Gross
15 ups.

CHAPTER 4: COST ALLOCATION STUDY

GSWC requested an allocation rate of 2.34% for the purpose of allocating General Office's Expenses and Ratebase to its affiliate ASUS in connection with the use of its regulated assets for the Non-regulated businesses whereas DRA recommends an allocation rate of 18.21%.

Similarly, GSWC requested an allocation rate of 3.21% for a Non-regulated water company, Chaparral City Water Company (CCWC), and an allocation rate of 9.70% for its electric division, Bear Valley Electric (BVE) whereas DRA recommends an allocation rate of 3.65% for CCWC, and an allocation rate of 8.03% for BVE.

The Commission, in its decision, D.04-03-039 directed, GSWC to submit a cost allocation study that would be the basis for assigning and allocating costs to GSWC's affiliates. In this GRC application, the Company submitted its General Office's Cost Allocation Study.

GSWC is a subsidiary of American States Water Company (AWR). In addition to GSWC, AWR is the parent company to ASUS and CCWC. CCWC is a public utility providing water service to approximately 12,600 customers in the state of Arizona. CCWC is regulated by the Arizona Corporation Commission.

ASUS is a Non-regulated subsidiary of AWR that contracts with municipalities, the US Government, and private entities to provide various utility-related services such as billing, meter reading, customer service, and operation & maintenance of water and wastewater systems. Currently, ASUS has contracts with 13 organizations servicing a total of 91,115 customers.

GSWC's Cost Allocation Study makes use of various Allocation Factors such as number of calls, number of bills, number of employees, and traditional Four Factors (Plant in service, Number of Customers, Operating Expenses, and labor Expenses) for the purpose of allocating cost of various Cost Centers within it General Office. For example, for the typical customer service contracts, GSWC used number of calls as an Allocating Factor to allocate costs of several Costs

Centers that maybe involved in providing services for the contracts. Similarly, in order to allocate costs to ASUS, the traditional Four Factors are used.

DRA disagrees with Company's cost allocation methodology. DRA would like to indicate that the choice of an Allocation Factor and Allocation Base is very important in any cost allocation study. GSWC's choice of Allocation Factors skewed costs toward its regulated business, thus leaving captive Ratepayers to pay and subsidies the costs of the Company's Non-regulated businesses.

For example, for the customer service contracts, using number of calls as an Allocation Factor to allocate costs from selective few Cost Centers of the General Office does not capture the full impact of the costs that are incurred in the Company's General Office. GSWC uses only 4 of its Cost Centers out of total of 42 Cost Centers as a Cost Allocation Base for the typical customer service contracts. The total Operating Costs of entire 42 Cost Centers is \$30,924,484 for the twelve-month-ended September 2005. The following are the 4 Cost Centers and their related Operating Expenses that were used as an Allocation Base:

1-Customer Service Center:	\$446,498
2-Application Support:	\$418,145
3-Customer Service-Day Shift:	\$1,124,057
<u>4-Customer Service-Night Shift:</u>	<u>\$184,508</u>
<u>Total:</u>	<u>\$2,173,208</u>

However, a close inspection will reveal that the most of the remaining 40 Cost Centers also contribute in performance of typical customer service function in the Company's General Office. By not including most of these remaining 40 Cost Center in this Allocation Base, GSWC in effect, shifting the cost toward the captive ratepayers.

For example, the Cost Centers such as related to Executive function, Human Resources function, Accounting function, IT function, and Plant

1 Maintenance function etc. should also be included in the Allocation Base, because
2 all of these functions provide Customer Service Center the support it needs in
3 order to become to fully operated. Imagine a Customer Service Center operating
4 without Executive leadership and oversight, without an Accounting Department to
5 help it keeping books for and track of its business transactions, without a General
6 Maintenance, and without an IT support. It is obvious that all these functions are
7 necessary for one Cost Center to function...one cannot do without the others.

8 As far as choice of using the number of calls as an Allocation Factor is
9 concerned; it is also questionable, GSWC did not design its Customer Service
10 Center based upon the typical number of call it expects to receive. In fact, it has
11 designed the capabilities of its Customer Service Center based upon number of
12 customers. For example, the proposed cost of \$9,092,948 for GSWC's New
13 CIS/CRM System in its Customer Service Department is not based upon expected
14 number of call volume from its regulated customers but on the number of its
15 regulated customers. Therefore, the numbers of customers served under the each
16 customer service contract is more appropriate Allocation Factor. Once again using
17 the number of calls as an Allocation Factor, and not the number of customer,
18 GSWC is shifting costs to its captive ratepayers.

19 In addition, for the purpose of allocating the cost of most of the remaining
20 Cost Centers, GSWC used the traditional Four Factors as Allocation Factor. Here
21 once again, the Company has skewed the costs toward the captive ratepayers. For
22 example, neither GSWC nor ASUS invest any capital into the systems of the
23 clients under ASUS contracts to whom the GSWC provides services. Therefore,
24 the use of "Plant in service" as one of the Allocation Factors within the traditional
25 Four Factors to allocate the cost toward ASUS makes no sense at all. It is obvious
26 that this Allocation Factor will assign no costs whatsoever to ASUS due to the
27 lack of ASUS direct investments in its clients' systems. However, it is not the
28 ASUS to whom GSWC provides operating services but the clients of ASUS.

1 Similarly, the way GSWC used the “Numbers of customers” as one of the
2 Allocation Factors within the traditional Four Factors to allocate the cost toward
3 ASUS is unreasonable and self-serving. Here, GSWC counts each of ASUS
4 contract as “one” customer. Because ASUS has total of 11 contracts (DRA
5 believes that it has 13 existing contracts), hence by GSWC logic, ASUS has only
6 11 customers. In contrast, GSWC currently has 275,706 regulated water
7 customers. The outcome is obvious, GSWC will get 99.9996% of the cost
8 Allocation Base, leaving only 0.000004% of the costs for ASUS.

9 Let’s see this from another angle. Currently, GSWC provides customers
10 services to four out of these 11 ASUS contracts, namely: Brooke Utilities Inc.,
11 City of Bell Gardens, City of Torrance, and Rowland Water District. Collectively
12 these contracts have 58,000 water customers whose customer service needs;
13 GSWC is serving out of its Customer Call Center in its General Office. Even
14 though from ASUS prospective they are only four contracts, these are additional
15 58,000 customers who are added on to GSWC’s existing 275,706 regulated water
16 customers. However, the way GSWC is proposing to allocate its General Office
17 costs to itself, based upon number of regulated customers i.e. 275,706, and to
18 ASUS, based upon number of customers i.e. only 4 (which in effect, is the number
19 of contracts not the 58,000 customers these contracts actually represent) is
20 obviously self-serving and has no merits whatsoever.

21 Given the above mentioned reprehensive tactics used by GSWC in
22 preparing its Cost Allocation Study, DRA recommends rejecting the Company’s
23 Cost Allocation Study. And further recommends that the Commission should
24 adopt the methodology used and recommended by DRA in relation to cost
25 allocations toward the Company’ Non-regulated businesses.

26 DRA approaches the question of cost allocation from the view on the types
27 of obligations and burden an ASUS contract imposes on GSWC recourses. What
28 types of services GSWC has to provide to serve these contracts. After all it is not
29 ASUS who is performing these services, in effect; it is GSWC that is a service

1 provider in most of the cases. The General Office of GSWC is an example of
2 giant back office whose work is constantly supporting the front office of an
3 organization. For example, Accounting, Finance, IT capabilities, Customer
4 Service, Human Resource, and Advertising etc. all is done to support the front
5 offices i.e. various regions and their respective Customer Service Areas (CSAs).
6 In fact, that is the very reason; the Commission directs water utilities to allocate
7 their General Office's expenses and ratebase among their various operating units.
8 Therefore, the services provided by GSWC to Non-regulated businesses under
9 ASUS should not be any different until ASUS can become entirely independent
10 without relying on GSWC's General Office functions, and this is far from
11 happening. In effect, the very reason ASUS is able to sign contracts with outside
12 entities is because of the GSWC's resources, capabilities, and reputation. ASUS
13 constantly uses GSWC's regulated business capabilities as a "sale pitch" to attract
14 new customers. Therefore, it is only logical to measure the demand on GSWC's
15 resources from the ASUS contacts and the cross-subsidy that is being provided by
16 the captive ratepayers.

17 GSWC provide the following list of its various Cost Centers in its General
18 Office. DRA believes that depending upon the nature of the services required
19 under each contract will determine what specific Cost Centers should be included
20 in the Cost Allocation Base.

.....DESCRIPTION.....		Total Expense
40	Corporate Executive	1,968,869
41	Vacant – Exec	123
43	Senior Executive	627,889
44	CFO – EXECUTIVE	1,112,057
45	ADMINISTRATIVE SERVICES -	1,078,227
46	OPERATIONS - EXECUTIVE	193,466
49	GO - Capitalized Expenses Only	(3,048,884)
50	Regulatory Affairs – Exec	593,080
51	Rate Cases	390,957
52	Tariffs & Special Projects	203,496
53	Conservation	16,076
54	Governmental Affairs	83,552
56	Regulatory BVES	279
59	J.D.Edwards System	170,632
60	Accounting/Finance – Exec	2,016,675
61	Internal Audit	166,063
62	Budgets & Planning	171,614
63	Financial Management	1,176,289
64	Controller	1,134,992
65	Property Accounting	79,319
66	Accounts Payable	196,435
67	General Accounting	272,158
68	Tax	551,961
69	Risk Management	1,096,241
70	Water Quality	264,939
71	Environmental Matters	1,233
72	Legal Affairs	56
73	Preventative Maintenance	94,475
75	Capital Project Management	53,119
80	Cust. Operations Support	11,123
81	Human Resources	12,316,532
82	Corporate Communications	0
83	Customer Service Center	446,498
84	Employee Development	853,050
85	Information Services	235,958
86	Network Services	835,425
87	PC Computer Operations – Billing & Cash	456,610
87	PC Computer Operations - General	1,170,114
87	PC Computer Operations - GSWC only	869,246
88	Applications Support	418,145
90	General Plant Maintenance	1,220,411
90	General Plant Maintenance	116,113
91	Customer Srv. Day Shift	1,124,057
92	Customer Srv.-Nightshift	184,508
93	SIP	1,306
GO	General Office Total 4 -6	30,924,484

1 In general, ASUS' contracts with Non-regulated businesses under which
2 GSWC performs various services fall under three categories: Operation &
3 Maintenance contracts, Billing & Customer Service contracts, and Meter Reading
4 contracts. A few contracts also take a combination of these wider categories such
5 as the contract with City of Bell garden which deals with Billing, Customers
6 Service, Meter reading and Operation & Maintenance at the same time.

7 **A. Operation & Maintenance Contracts**

8 Under these contracts GSWC performs day-to-day Operation &
9 Maintenance (O&M) and Administration & General (A&G) operations. Some of
10 these services are performed by GSWC's region-II staff and for the others, which
11 are generally located outside the State of California; ASUS has hired its own staff
12 to perform day-to-day operations. But even in this scenario, the various Cost
13 Centers of GSWC's General Office contribute in providing back office support.
14 For example, executives are fully involved in reviewing and providing oversight.
15 Human Resources is involved to facilitate the hiring, training, paychecks, and in
16 providing various insurances for the ASUS staff. Similarly, Accounting &
17 Finance Department provides most of the accounting related functions. In
18 addition, Information Technology Department supports all of the Cost Centers
19 including Executives, Human Resources, and Accounting & Finance Departments
20 alike. Therefore, DRA utilizes an Allocation Base of \$26,830,671 out of total
21 General Office's costs of \$30,924,483 for all Operation & Maintenance contracts.
22 Several of GSWC's General Office' Cost Centers were excluded. For example,
23 Regulatory Affair, Customer Service Center, PC billings, PC operations for
24 GSWC only, Customer Service-Day Shift, and Customer Service- Night Shift
25 were not included for the obvious reason that these Cost Centers do not contribute
26 toward the Operating & Maintenance contracts.

27 Following are the seven contracts under which O&M and A&G operations
28 are performed:

1 **1. Central Basin**

2 Under this contract, GSWC maintains and operates two wells, associated
3 pumps, Granular Activate Carbon (GAC) treatment facility, and distributions
4 pipes. Various GSWC's employees out of its Region-II provide these services.

5 As far as the Allocation Factors are concerned, DRA tried to use the basic
6 Four Factors Allocation Factors. However, if the use of any one of the four
7 factors was likely to skew the costs to either the Regulated or the Non-regulated
8 entity, it was simply excluded.

9 In the case of Central Basin contract the number of customers served under
10 the contract was not available; however, the value of plant that the Company is
11 responsible to maintained was available from the Central Basin's Administration.
12 Similarly, the value of Operating Expenses and Labor Expenses were also
13 available from the Summary of Earning for this contract that the Company
14 provided in response to DRA's Data request, AMX-01. Therefore, only these
15 three factors were used to allocate costs measured in Cost Allocation Base. The
16 over all allocation rate for this project was determined to be 1.48%.

17 **B. City of Bell Gardens**

18 Under this contract, GSWC maintains and operates GSWC also provides
19 meter reading, Billing, and Customers Service related services. Various GSWC's
20 employees out of its Region-II provide these services. Because this project also
21 requires Billing, Meter Reading, and Customer Services in addition to Operating
22 & Maintenance Services, the Cost Allocation base for calculating the allocation
23 for this particular contact is \$28,983,992. Only the "Regulatory Affair related",
24 and "PC operations for GSWC Only", Cost Centers were excluded.

25 As far as Allocation Factors were concerned, DRA was not able to get the
26 information regarding the value of the facilities maintained from the City's
27 Administration; however, the information regarding total annual water production
28 from the well was obtained. DRA, therefore, used a combination of five Cost
29 Allocation Factors: Number of Customers, Operating Expenses, Labor Expenses,

1 Water Production, and Number of wells. The over all allocation rate for this
2 project was determined to be 1.06%.

3 **C. Fort Bliss**

4 Under this project, ASUS is responsible for full operation of a military
5 base, Fort Bliss's water and wastewater system. This and other military contracts
6 are unique in a sense as they are located outside the state California, thus ASUS'
7 own staff, hired in these regions performs related services, however, the various
8 Cost Centers of GSWC's General Office contribute in providing back office
9 support. Therefore, the typical Cost Allocation Base in the amount of \$26,830,671
10 for the Operating & Maintenance contracts is used.

11 As far as Allocation Factors were concerned, DRA was not able to get the
12 information regarding the value of the Labor Expense, and the Number of
13 Customers served under this contract, however, the information regarding the
14 Number of Wells was readily available. DRA, therefore, used a combination of
15 three Cost Allocation Factors: Plant, Operating Expenses, and Number of Wells.
16 The over all allocation rate for this project was determined to be 4.75%.

17 **D. Andrew Air Force Base**

18 Under this project, ASUS is responsible for full operation of a military
19 base, Andrew Air Force Base's water and wastewater system. This and other
20 military contracts are unique in a sense as they are located outside the state of
21 California, thus ASUS' own staff, hired in these regions performs related services,
22 however, the various Cost Centers of GSWC's General Office contribute in
23 providing back office support. Therefore, the typical Cost Allocation Base in the
24 amount of \$26,830,671 for the Operating & Maintenance contracts is used.

25 As far as Allocation Factors were concerned, DRA was only able to get the
26 information regarding the value of the Plant and Operating Expenses as provided
27 in the contract, and later provided by the Company in its response to DRA's Data
28 request, informal AMX#3. Therefore, DRA used a combination of only these two

1 Cost Allocation Factors, Plant, and Operating Expenses. The over all allocation
2 rate for this project was determined to be 1.19%.

3 **E. Fort Monroe**

4 Under this project, ASUS is responsible for full operation of the water and
5 wastewater system for Fort Monroe, a military base. This and other military
6 contracts are unique in a sense as they are located outside the state California, thus
7 ASUS' own staff, hired in these regions performs related services; however, the
8 various Cost Centers of GSWC's General Office contribute in providing back
9 office support. Therefore, the typical Cost Allocation Base in the amount of
10 \$26,830,671 for the Operating & Maintenance contracts is used.

11 As far as Allocation Factors were concerned, DRA was only able to get the
12 information regarding the value of the Plant and Operating Expenses as provided
13 in the contract, and later provided by the Company in its response to DRA's Data
14 request, informal AMX#3. Therefore, DRA used a combination of only these two
15 Cost Allocation Factors, Plant, and Operating Expenses. The over all allocation
16 rate for this project was determined to be 1.31%.

17 **F. Fort Lee**

18 Under this project, ASUS is responsible for full operation of a military
19 base, Fort Monroe's water and wastewater system. This and other military
20 contracts are unique in a sense as they are located outside the state California, thus
21 ASUS' own staff, hired in these regions performs related services, however, the
22 various Cost Centers of GSWC's General Office contribute in providing back
23 office support. Therefore, the typical Cost Allocation Base in the amount of
24 \$26,830,671 for the Operating & Maintenance contracts is used.

25 As far as Allocation Factors were concerned, DRA was only able to get the
26 information regarding the value of the Plant and Operating Expenses as provided
27 in the contract, and later provided by the Company in its response to DRA's Data
28 request, informal AMX#3. Therefore, DRA used a combination of only these two

1 Cost Allocation Factors, Plant, and Operating Expenses. The over all allocation
2 rate for this project was determined to be 0.52%.

3 **G. Natomas Central Mutual Water Company**

4 ASUS has several contracts with this Non-regulated entity. Historically,
5 Natomas provided agricultural Services to its Shareholders who own land within
6 its boundaries, by providing Surface Water for agricultural uses. However,
7 Natomas expects that in near future its shareholders will be converting their land
8 for residential and commercial uses. Natomas entered in set of agreements with
9 ASUS that will allow ASUS/GSWC to build and then provide day-to-day
10 operations to Natomas water distribution system. In addition, there also exists an
11 understanding between the parties that in some time in near future, GSWC will
12 purchase water from Natomas and will sell it to its own regulated customers.
13 Similarly, recently parties have negotiated a Water-right Execution plan that
14 allows to Natomas to sell some of its water right in the area to GSWC.

15 GSWC, on the other hand, argues that this contract is inactive as it relates
16 to the future performance by GSWC. DRA disagrees that the project is inactive.
17 There is lots of recent activity on the account. The Company records show that in
18 the year 2004 and 2005, GSWC spent a total of \$3,112,783 in Operating expense.
19 Therefore, DRA used a typical Cost Allocation Base in the amount of \$26,830,671
20 for the Operating & Maintenance contracts.

21 As far as Allocation Factors were concerned, DRA was only able to get the
22 information regarding the value of the Operating Expenses, and Labor Expenses as
23 were provided by the Company in its response to DRA's Data request, AMX-1.
24 Therefore, DRA used a combination of only these two Cost Allocation Factors,
25 Operating Expenses, and Labor Expenses. The over all allocation rate for this
26 project was determined to be 0.73%.

1 **H. Billing & Customer Service Contracts**

2 Under these contracts GSWC performs typical Billing and Customer
3 services operations. All most all of the services provided under these types of
4 contracts are performed by GSWC's General Office. A major part of these
5 services are obviously performed within the Company's Customer Call Center.
6 Therefore, DRA utilizes an Allocation Base of \$28,325,015 out of total General
7 Office's costs of \$30,924,483 for all Billing & Customer Service contracts.
8 Several of GSWC's General Office' Cost Centers were excluded. For example,
9 Regulatory Affair, Water Quality, Environmental Matters, Legal Affairs,
10 Preventive Maintenance, Customer Service –Night Shift, Capital Project
11 Management, and PC Operation GSWC only, were not included for the obvious
12 reason that these Cost Centers do not contribute toward the Billing & Customer
13 Service contracts.

14 Following are the three contracts under which Billing & Customer Service
15 operations are performed:

16 **1. Brooks Utilities, Inc.**

17 Under this contract, GSWC provides typical Billing and Customer Service
18 related services out of its General Office.

19 As far as the Allocation Factors are concerned, DRA tried to use the basic
20 Four Factors Allocation Factors. However, if the use of any one of the four
21 factors was likely to skew the costs to either the Regulated or the Non-regulated
22 entity, it was simply excluded.

23 In the case of Brookes Utilities' contract the value of Plant was not
24 available, however, the value of Number of Customers, Operating Expense and
25 Labor Expenses were provided by the Company. Therefore, only these three
26 factors were used to allocate costs measured in Cost Allocation Base. The over all
27 allocation rate for this project was determined to be 0.96%.

1 **2. City of Torrance**

2 Under this contract, GSWC provides typical Billing and Customer Service
3 related services out of its General Office.

4 In the case of City of Torrance's contract the value of Plant was not
5 available, however, the value of Number of Customers, Operating Expense and
6 Labor Expenses were provided by the Company. Therefore, only these three
7 factors were used to allocate costs measured in Cost Allocation Base. The over all
8 allocation rate for this project was determined to be 3.92%.

9 **3. Well Spring International:**

10 Under this contract, GSWC provides typical Billing and Customer Service
11 related services out of its General Office. Even though this contract is no longer
12 active; it was active during the period of 2000 to 2003. Previously, the
13 Company's rates only in the year 2003 took account of cost allocations due to its
14 involvement in Non-regulated businesses, therefore, DRA imputes the cost
15 allocation for the year this contract became active i.e. 2002 until the year 2003.

16 In the case of well Spring International's contract the value of Plant was not
17 available, however, the value of Number of Customers, Operating Expense and
18 Labor Expenses were provided by the Company. Therefore, only these three
19 factors were used to allocate costs measured in Cost Allocation Base. The over all
20 allocation rate for this project was determined to be 2.19%.

21 **I. Meter Reading Contracts**

22 Under these contracts GSWC performs typical Meter Reading services.
23 Meters are read using either a GSWC crew or an ASUS' crew. However, the role
24 of GSWC' General Office huge back-office support operations continue to
25 influence these activities regardless of the fact who is reading the meter reads in
26 the field. For example, the meter read data is transferred to General Office, and
27 also made available online to the clients. Therefore, the various Cost Centers of
28 GSWC's General Office contribute in providing back office support. For example,

1 executives are fully involved in reviewing and providing oversight. Human
2 Resources is involved to facilitate the hiring, training, paychecks, and in providing
3 various insurances for the ASUS staff. Similarly, Accounting & Finance
4 Department provides most of the accounting related functions. In addition,
5 Information Technology Department supports all of the Cost Centers including
6 Executives, Human Resources, and Accounting & Finance Departments alike.
7 Therefore, DRA utilizes an Allocation Base of \$19,902,158 out of total General
8 Office's costs of \$30,924,483 for all Meter Reading contracts. Several of GSWC's
9 General Office' Cost Centers were excluded only limited Cost Centers were
10 included. For example, Executives, Human Resources, Network Services, PC
11 Operations, Services, PC Operations-General, Application support and General
12 Plant Maintenance were included; rest all of the Cost Centers' costs were excluded
13 for the obvious reason that they are not likely to contribute in providing support
14 for Meter Reading Services.

15 Following are the two contracts under which Billing & Customer Service
16 operations are performed:

17 **1. City of Tustin**

18 Under this contract, GSWC provides typical Meter Reading related
19 services. As discussed above various General Office Cost Centers incurred costs in
20 order to provide supporting services. Therefore, a Cost Allocation Base in the
21 amount of \$19,907,158 is used.

22 As far as the Allocation Factors are concerned, DRA tried to use the basic
23 Four Factors Allocation Factors. However, if the use of any one of the four factors
24 was likely to skew the costs to either the Regulated or the Non-regulated entity, it
25 was simply excluded.

26 In the case of City of Tustin's contract the value of Plant was not available,
27 however, the value of Number of Customers, Operating Expense and Labor
28 Expenses were provided by the Company. Therefore, only these three factors were

1 used to allocate costs measured in Cost Allocation Base. The over all allocation
2 rate for this project was determined to be 0.88%.

3 **2. City of Santa Fe Spring:**

4 Under this contract, GSWC provides typical Meter Reading related
5 services. As discussed above various General Office Cost Centers incurred costs in
6 order to provide supporting services. Therefore, a Cost Allocation Base in the
7 amount of \$19,907,158 is used.

8 As far as the Allocation Factors are concerned, DRA tried to use the basic
9 Four Factors Allocation Factors. However, if the use of any one of the four
10 factors was likely to skew the costs to either the Regulated or the Non-regulated
11 entity, it was simply excluded.

12 In the case of City of Santa Fe Spring's contract the value of Plant was not
13 available, however, the value of Number of Customers, Operating Expense and
14 Labor Expenses were provided by the Company. Therefore, only these three
15 factors were used to allocate costs measured in Cost Allocation Base. The over all
16 allocation rate for this project was determined to be 0.76%.

17 **3. City of Chino Hills**

18 Under this contract, GSWC provides typical Meter Reading related
19 services. As discussed above various General Office Cost Centers incurred costs
20 in order to provide supporting services. Therefore, a Cost Allocation Base in the
21 amount of \$19,907,158 is used.

22 Even though this contract is no longer active; it was active during the
23 period of 2002 to 2003. Previously, the Company's rates only in the year 2003
24 took account of cost allocations due to its involvement in Non-regulated
25 businesses, therefore, DRA imputes the cost allocation for the year this contract
26 became active i.e. 2002 until the year 2003.

27 As far as the Allocation Factors are concerned, DRA tried to use the basic
28 Four Factors Allocation Factors. However, if the use of any one of the four

1 factors was likely to skew the costs to either the Regulated or the Non-regulated
2 entity, it was simply excluded.

3 In the case of City of Chino's contract the value of Plant was not available,
4 however, the value of Number of Customers, Operating Expense and Labor
5 Expenses were provided by the Company. Therefore, only these three factors
6 were used to allocate costs measured in Cost Allocation Base. The over all
7 allocation rate for this project was determined to be 2.32%.

8 Besides the above mentioned Non-regulated businesses, there are two more
9 contracts, namely Rowland Water District and Goleta Water District contracts.
10 Under these two contracts ASUS /GSWC provides combinations of services that
11 are little different that those discussed above.

12 **4. Rowland Water District**

13 Under this contract, GSWC provides only After-hour Call Center Services.
14 Therefore, DRA would have to estimate a Cost Allocation Base that is
15 appropriately related to the nature of services required under this contract.
16 However, various General Office Cost Centers will still incurred costs in order to
17 provide supporting services. Therefore, a Cost Allocation Base in the amount of
18 \$21,287,614 is used.

19 Several of GSWC's General Office' Cost Centers were excluded. For
20 example, Regulatory Affair, Accounting & Finance, Water Quality, Capital
21 Project Management, PC Ops. GSWC only, PC Billing & Cash, Customers
22 Service- Day Shift, and General Plant Maintenance, were not included for the
23 obvious reason that these Cost Centers do not contribute toward the After-Hour
24 Customer service contracts.

25 As far as the Allocation Factors are concerned, DRA tried to use the basic
26 Four Factors Allocation Factors. However, if the use of any one of the four factors
27 was likely to skew the costs to either the Regulated or the Non-regulated entity, it
28 was simply excluded.

1 In the case of Rowland Water District's contract the value of only the
2 Number of Customers and Operating Expense were known. Therefore, DRA used
3 only these two factors for the purpose of cost allocation. The over all allocation
4 rate for this project was determined to be 2.59%.

5 **5. Goleta Water District**

6 Under this contract, GSWC provides Billing, Cash processing and
7 Customer Information System Support Services. Therefore, DRA would have to
8 estimate a Cost Allocation Base that is appropriately related to the nature of
9 services required under this contract. However, various General Office Cost
10 Centers will still incurred costs in order to provide supporting services. Therefore,
11 a Cost Allocation Base in the amount of \$20,349,631 is used.

12 Several of GSWC's General Office' Cost Centers were excluded and only
13 limited Cost Centers were included. For example, Executives, Human Resources,
14 Information Services, Network Services, PC Operations-General, Application
15 Support, PC Ops. Billing & Cash and General Plant Maintenance were included;
16 rest of all of the Cost Centers' costs were excluded for the obvious reason that
17 they do not contribute in providing support for the services require3d under this
18 contract.

19 As far as the Allocation Factors are concerned, DRA tried to use the basic
20 Four Factors Allocation Factors. However, if the use of any one of the four
21 factors was likely to skew the costs to either the Regulated or the Non-regulated
22 entity, it was simply excluded.

23 In the case of Goleta Water District's contract the value of Plant was not
24 available, however, the value of Number of Customers, Operating Expense and
25 Labor Expenses were provided by the Company. Therefore, only these three
26 factors were used to allocate costs measured in Cost Allocation Base. The over all
27 allocation rate for this project was determined to be 1.89%.

28 Finally, the combined overall total Allocation Rate for all of the 13 active
29 Non-regulated businesses was calculated to be 18.21%. Once this rate is

1 determined; the Allocation Rate for CCWC is then calculated based upon
2 traditional Four Factors, and was determined to be 3.65%. Similarly, the
3 Allocation Rate for BVE was also based upon traditional Four Factors and
4 determined to be 8.03%. Both the Company and DRA agreed upon the Cost
5 Allocation Base and Allocation Factors in the case of CCWC and BVE.

CHAPTER 5: OVERHEAD RATE STUDY

Per the Commission's decision, D.06-01-025, GSWC was required to submit an Overhead Rate Study. In this GRS application, GSWC submitted the Overhead Rate Study, in this Study the Company requested to use an Overhead Allocation Rate of 21.8%, 24.9% and 22.1% for the year 2006, 2007 and 2008 for its capital projects in Region-II and General Office respectively whereas DRA recommends 10.11%, 10.87%, and 6.37 % for the year 2006, 2007, and 2008 respectively.

DRA notices that since its last GRC application in year 2005 for its Region III, the Company has come a long way, and improved its concept for calculating its Overhead Rates. For example, today, GSWC does not insist including its capitalized expenses incurred in a Non-regulated business, CCWC into its company-wide Overhead Pool Account.

Both DRA and the Company now share a somewhat common methodology regarding the issue of Overhead Rates. However, there are still some differences. O&M and A&G expenses are capitalized throughout the operational areas into two categories; either they are capitalized directly to a specific capital project and become the part of the capital project itself, or they can be of an indirect nature and hence cannot be assigned to a specific capital project, in this case they are booked into a company wide Overhead Pool Account. Later, these amounts are allocated to all of the capital projects through the use of Overhead Allocation Rate.

GSWC, currently, requested to book related capitalized expenses from various operational areas of its organization, namely, Region I, Region II, Region III, BVE, and General Office into its company-wide Overhead Pool Account. Overhead rates are then determined by following mathematical formula by the use of amount of capital projects in each of these operational areas for a particular year:

1 **$$\text{OAR} = \text{CAOPA} / \text{CB}$$**

2 Where,

3 OAR = Overhead Allocation Rate

4 CAOPA = Capitalized Amount in Overhead Pool Account

5 CB = Capital Budget.

6 It should be noticed that Capitalized Amount in Overhead Pool Account
7 remains pretty much constant over the year as it is mostly based upon pre-
8 determined rates. GSWC currently, requested to use 21% of its operating
9 expenses to be capitalized in its Overhead Pool Account.

10 The Overhead Allocation Rate is mathematically inversely proportional to
11 the Capital Budget in a specific year. In other words, if the Company's Capital
12 Budget is more in one year, the related Overhead Allocation Rate would be less,
13 and if the Company's Capital Budget is less in a specific year, the related
14 Overhead Allocation Rate would be more. On the other hand, Overhead
15 Allocation Rate is mathematically directly proportional to Capitalized Amount in
16 Overhead Pool Account.

17 DRA currently recommends cutting back the Company's requested Capital
18 Budget both in its Region –II and General Office operational areas. In addition,
19 DRA believes that the proposed decrease in the capital budget will also result in a
20 proportionate reduction in the capitalized expenses that are booked into Overhead
21 Pool Account. DRA therefore, reduced these capitalized expenses in due
22 proportion and transfer the expenses into the O&M and A&G section of both for
23 General Office and Region-II. For example, for the Test Year, DRA transferred
24 \$1,260,471 as "Adjustment for Capitalized Expenses" in General Office, and an
25 amount of \$1,757,578 in Region-II.

26 DRA argues that the Company should track the capitalized expense which
27 it books into the company-wide Overhead Pool Account for each operational area
28 separately. Therefore, there will be no company-wide Overhead Pool Account;
29 instead each operating area will have its own Overhead Pool Account. This will

1 give more control and added transparency to the entire process of measuring
2 Overhead Allocation rates between the operating Regions.

3 The Commission's Uniform System of Accounts for Water Utilities, clearly
4 states the following when describing the application of Overhead Construction
5 Costs:

6 "6. Overhead Construction Costs

7 All overheads construction costs, such as engineering,
8 supervision, general office salaries and expenses,
9 construction engineering and supervision by others
10 that the accounting utility, law expenses, insurance,
11 injuries and damages, relief and pensions, taxes and
12 interest, shall be charged to particular jobs or units on
13 the basis of the amount of such overheads reasonably
14 applicable thereto, to the end that each job or unit shall
15 bear its equitable proportion of such costs and that the
16 entire cost of the unit, both direct and overhead, shall
17 be deducted from the utility plant account at the unit of
18 property is retired.

19 The instruction contained herein shall not be
20 interpreted as permitting the addition to utility plant
21 accounts of arbitrary percentages or amounts to cover
22 assumed overhead costs, but as requiring the
23 assignment to particular jobs and accounts of actual
24 and reasonable overheads costs.

25 The records supporting the entries for overheads
26 construction costs shall be so kept as to show the total
27 amount of each overhead for each year, the nature and
28 amount of each overhead expenditure charged to each
29 construction work order and to each utility plant
30 account, and the bases of distribution of such costs."

31 It is evident from the above excerpt that the overhead costs should not be an
32 arbitrary percentage but should be an actual and reasonable cost. By first adding
33 its Non-regulated businesses' such as CCWC's capitalized cost to its company-
34 wide Overhead Pool Account and then allocating it to regulated capital projects,
35 GSWC is not assuring the fact that regulated activities are burden with their
36 equitable portion of these overhead costs. This time around, however, GSWC did

1 not include CCWC's capitalized costs into its company-wide Overhead Pool
2 Account; nevertheless, it has included the capitalized costs related to its Electric
3 Division, BVE into the Overhead Pool.

4 As this GRC application only deals with the Company's water rates for its
5 water ratepayers, the inclusion of BVE's capitalized costs into the Company-wide
6 Overhead Pool Account distorts the process of overhead rates, and the GSWC's
7 water ratepayers will end up sharing the portions of capitalized costs which are
8 actually related to the Company's electric customers.

9 Therefore, DRA recommends that the Company must separate its specific
10 capitalized costs at each operational area level so that only true and real costs are
11 passed on to the related capital projects in each operational water services Region.

12 Similarly, GSWC books all of its employee related insurances, health
13 benefits, pensions, and vacation expenses into its General Office. The Company
14 then designates 21% of these expenses as Capitalized expenses. Based upon its
15 actual recorded labor percentages for both the capitalized labor booked directly for
16 specific capital projects and charges of labor hours booked into the company-wide
17 Overhead Pool Account, the Company estimates approximately 64% of employee
18 related insurance, health benefits, pensions, and vacation expenses out of 21%
19 capitalized portion should be booked into the company-wide Overhead Pool
20 Account (in 2005 the Company's records show 64% of labor charges within the
21 entire company were booked into company-wide Overhead Pool Account, and
22 36% were booked directly to capital projects). Once again, the true costs are
23 distorted by this practice. There is no need to pool employee related costs for
24 insurance, health benefits, pensions, and vacation into General Office. These costs
25 should be directly assigned to each employee working in his or her operational
26 area.

27 To make this direct assignment of overhead costs possible, DRA is
28 dependent upon such data from the Company. GSWC's responded to DRA's data
29 request AMX-02 indicating that the Company currently does not track its

1 employee related benefit and insurance costs directly to its employee in each of
2 the operational area. Thus, DRA was not able to separate these costs either, and
3 therefore has accepted the Company's 64% rate for the purpose of capitalizing
4 such expenses into the Overhead Pool Account. However, DRA strongly
5 recommends that in future filings, GSWC should develop a process for directly
6 charging these costs to each of its employee in its various operational areas.

7 In order to separate Overhead related capitalized expenses of regional-II
8 and General Office, DRA has to look at the five year historical recorded data and
9 make adjustments in order to have a uniform level of estimates for the base year
10 2005. These capitalized costs for the year 2006, 2007, and 2008 were obtained by
11 simply escalating the year 2005 values. It should also be noticed that the Company
12 books the entire 21% of capitalized expenses within its General Office into
13 company-wide Overhead Allocation Pool. DRA therefore, also kept entire
14 capitalized expenses within General Office's Overhead Pool Account.

15 Based upon the Company's ten year historical data (GSWC response to
16 DRA's deficiency data request, 4.143) the annual labor was capitalized on average
17 at the rate of 5%. Therefore, DRA recommends that all of the associated labor
18 burden expenses (Injuries & Damages, and Pension & Benefits) should also be
19 capitalized based upon and included into General Office's Overhead Pool Account
20 based upon 5% rate. GSWC currently, used a 21% rate for the purpose of
21 capitalization of labor burden expenses in General Office. It should be noticed
22 that either way, the Company is made whole, with the lower 5% capitalize rate,
23 the Company collects less in capital projects but on the other hand, collects higher
24 expenses for its General Office's operations.

25 On the other hand, the ten year historical data for the Company's Region-II
26 operations, depicts on average a capitalize rate of 34%, however, in this
27 application, GSWC requested a capitalize rate of 21%. DRA agrees to use the rate
28 of 21% for the purpose of capitalization expenses within Region-II.

1 Collectively, for its Region-II and General Office Overhead Pool Accounts,
2 GSWC requested amounts of \$6,277,441, \$8,080,882, and \$7,929,972 for the
3 years of 2006, 2007, and 2008 respectively whereas DRA recommends amounts of
4 \$1,436,352, \$1,737,421, and 850,672.

5 **Existing over-drawn company-wide Overhead Pool Account:** The Company's
6 records show that in the beginning of the year 2005, the company-wide Overhead
7 Pool Account was over drawn in the amount of \$4,349,866. This simply indicates
8 that the less capitalized expenses were booked into the Pool than they were
9 actually charged to the capital projects throughout the Company in the years prior
10 to 2005.

11 Ideally, at the end of each year, the company-wide Overhead Pool Account
12 should reflect a zero balance. Usually, over the years, companies develop a better
13 feel of their capital project needs and they set Overhead Allocation Rate in such a
14 manner that the end of year balance comes closer to zero or shows a small over or
15 under drawn amount.

16 Unfortunately, that is not the case with GSWC. Due the fact, the Company
17 maintains a company-wide Overhead Pool Account; it is difficult to tell how much
18 of this over drawn amount was assigned to what particular project in a particular
19 operational area.

20 As DRA and the Company, both based their Overhead Study on the year
21 2005. DRA would assume that at the beginning of the year 2005, the Overhead
22 Pools Accounts, both in General Office and Region-II should to be at zero
23 balance. Therefore, a downward adjustment based upon a proportion to the
24 Company's projection of company-wide capitalized expenses into the Overhead
25 Pool Account and that of DRA's recommended capitalized expenses in both the
26 General Office and Region-II was made in the amount of \$379,051 for General
27 Office and \$730,961 for Region-II for their respective recommended Overhead
28 Pool Accounts.

1 For the purpose of determining the Company's Overhead Allocation rate in
2 Region-II and General Office for the Test Year, DRA recommends the amounts of
3 both denominator i.e. Capital Budget (CB) \$15,983,833, and the numerator i.e.
4 Capitalized Amount in Overhead Pool Account (CAOPA) \$1,737,421 that results
5 in an Overhead Rate of 10.87%. And in addition, strongly stress that going
6 forward; GSWC must track actual and direct capitalized costs in each of its
7 operational area separately.

CHAPTER 6: REGION II HEADQUARTER

This Chapter provides DRA's recommendation for capital addition and allocation for GSWC's Region II Headquarter. DRA's recommendation regarding expenses for Region II Headquarter is described in DRA's Metro staff report.

Region-II's Ratebase:

GSWC's request for a weighted Average Ratebase for its Region-II consisted of historical ratebase of \$1,926,680 in Region-II and the Company's forecasts for capital addition in the amount of \$164,600, \$117,700, and \$187,600 for the year 2006, 2007 and 2008 respectively Whereas DRA accepted the Company's request for ratebase, however, it recommends amount of \$63,397, \$52,709, and 52,536 for the year 2006, 2007, and 2008 respectively

A Capital projects in year 2006

1. Replace 40 PCs and 15 Printers

GSWC requested to replace 40 PCs and 15 desktop printers in its Region-II at the cost of \$70,000 Whereas DRA recommends an amount of \$49,397. The difference is mainly due to the reduction in number of PCs and Printers DRA is recommending. In its analysis, DRA is recommends a total of 135 employees in Region-II, 58 of these employees are field workers. DRA believes that 10 PCs as a shared workstations for these field workers is reasonable, hence DRA recommends a total of 87 PCs in region-II. Given the three year life cycle for PCs, on average there should only be 29 PCs replaced in each year. DRA then applies the same reduction ratio to calculate need of 11 Printers replacement in the Region per year.

2. Replace Office Furniture for Managers

GSWC requested to replace Office furniture for managers in the Region for an amount of \$27,100. However, GSWC did not provide any meaningful support

1 regarding the condition of the existing furniture. Therefore, DRA recommends
2 disallowing this request.

3 **3. Office Furniture**

4 GSWC requested to replace damaged, stolen, or loss Office furniture for an
5 amount of \$15,000. However, GSWC did not provide any meaningful support
6 regarding the condition of the existing furniture, or details of alleged theft or loss.
7 Therefore, DRA recommends disallowing this request.

8 **4. Automatic Vehicle Location Units**

9 GSWC requested an amount of \$25,000 for the purpose of purchasing new
10 and replaced units of Vehicle Locations System Units. GSWC argued that these
11 units are needed in the case of emergency or danger. DRA disagrees with the
12 Company requests and believes that there are several other mode of
13 communications that are already available to the Company's employee such as
14 Cellular phones, Hand-held devices etc. Furthermore, some versions of hand-held
15 devices are capable of providing location without any added investment. In
16 addition, a shift supervisor ought to know the whereabouts of its crew. Therefore,
17 this request is deemed unnecessary and should be denied.

18 **B. Capital projects in year 2007**

19 **1. Replace 47 PCs and 15 Printers**

20 GSWC requested to replace 47 PCs and 15 desktop printers in its Region-II
21 at the cost of \$82,000 Whereas DRA recommends an amount of \$51,419. The
22 difference is mainly due to the reduction in number of PCs and Printers DRA is
23 recommending. In its analysis, DRA is recommends a total of 135 employees in
24 Region-II. 58 of these employees are field workers. DRA believes that 10 PCs as
25 a shared workstations for these field workers is reasonable, hence DRA
26 recommends a total of 87 PCs in region-II. Therefore, given the three year life of
27 PCs, on average there should only be 29 PCs replaced in each year. DRA then

1 applied the same reduction ratio to calculate need of 11 Printers replacement in the
2 Region per year.

3 **2. Office Furniture**

4 GSWC requested to replace damaged, stolen, or loss Office furniture for an
5 amount of \$25,000. However, GSWC did not provide any meaningful support
6 regarding the condition of the existing furniture, or details of alleged theft or loss.
7 Therefore, DRA recommends disallowing this request.

8 **C. Capital projects in year 2008**

9 **1. Replace 47 PCs and 15 Printers**

10 GSWC requested to replace 47 PCs and 15 desktop printers in its Region-II
11 at the cost of \$82,000. Whereas DRA recommends an amount of \$51,236. The
12 difference is mainly due to the reduction in number of PCs and Printers DRA is
13 recommending. In its analysis, DRA is recommends a total of 135 employees in
14 Region-II. 58 of these employees are field workers. DRA believes that 10 PCs as
15 a shared workstations for these field workers is reasonable, hence DRA
16 recommends a total of 87 PCs in region-II. Therefore, given the three year life of
17 PCs, on average there should only be 29 PCs replaced in each year. DRA then
18 applied the same reduction ratio to calculate need of 11 Printers replacement in the
19 Region per year.

20 **2. Office Furniture**

21 GSWC requested to replace damaged, stolen, or loss Office furniture for an
22 amount of \$25,000. However, GSWC did not provide any meaningful support
23 regarding the condition of the existing furniture, or details of alleged theft or loss.
24 Therefore, DRA recommends disallowing this request.

25 **3. Automatic Vehicle Location Units**

26 GSWC requested an amount of \$25,000 for the purpose of purchasing new
27 and replaced units of Vehicle Locations System Units. GSWC argued that these
28 units are needed in the case of emergency or danger. DRA disagrees with the

1 Company requests and believes that there are several other mode of
2 communications that are already available to the Company's employee such as
3 Cellular pones, Hand-held devices etc. Furthermore, some versions of hand-held
4 devices are capable of providing location without any added investment. In
5 addition, a shift supervisor ought to know the whereabouts of its crew. Therefore,
6 this request is deemed unnecessary and should be denied.

7 **4. Replace Vehicle that has 102,440 miles**

8 GSWC requested an amount of \$38,500 for the purpose of replacing an
9 existing vehicle that will be reaching a mark of 102,400 mile in the year 2008.
10 DRA disagrees with the Company's replacement policy; DRA currently following
11 a vehicle replacement policy of 120,000 miles.

12 **D Contingency Charge**

13 GSWC requested to charge a contingency percentage of 10% to all of its
14 Capital Expenditure in each of the three years: 2006, 2007 and 2008.

15 DRA disagree with the proposed contingency percentage. It is quite
16 evident from the nature of these Capital projects that most of the projects are
17 straight forward purchase, and the only uncertainty that could arise is price
18 inflation factor. It should be noted that for the most part, the Company has taken
19 into account the inflation of prices in the future years while preparing its future
20 cost estimates. Nevertheless, DRA recommends that a lower percentage of 2.5%
21 for contingency is more suitable.

22 **E. Ratebase and O&M and A&G expense Allocations** 23 **in Region -II**

24 The Company's four out of the thirteen Non-regulated businesses are
25 located in its Region-II service area. These Non-regulated Businesses are:

- 26 1- Central Basin Municipal District
- 27 2- City of Bell Gardens
- 28 3- City of Torrance

1 4- City of Santa Fe Spring

2 In order to fulfill the contractual requirements, GSWC employees provide
3 various services under these contracts. For example, in its response to DRA's data
4 request, AMX#2, GSWC stated that for its Central Basin Municipal District and
5 City of Bell Gardens contract, the Company's workers from Central District
6 Office are responsible for the maintenance of the wells and water treatment
7 facilities, while the employees from Central Basin West are responsible for
8 distribution line between the two wells and the water treatment facilities.

9 Similarly, the employees from Torrance Office, located in Southwest CSA
10 are responsible for Billing, Customer Service, Collections, and payments for the
11 City of Torrance contract, while Central District Office is responsible for meter
12 reading and billing services under City of Santa Fe Springs contract.

13 During its filed trip and subsequent investigations, DRA discovered that for
14 the most part GSWC's field workers directly charge their time to these various
15 contracts. However, the executive and managerial staffs such as Vice President of
16 Customer Service, Administrative Manager, Engineering & Planning Managers,
17 and Water Quality Manager etc. in its Region-II Head quarter do not charge their
18 time toward such contracts.

19 DRA believes that as is the case of the Company's General Office, Region-
20 II Headquarters also provides the general back-office support and supervision for
21 its various Districts within the Region. Therefore, Region-II Headquarters'
22 expenses and ratebase must also be allocated accordingly to these Non-regulated
23 expenses.

24 In addition, there might be some additional costs at the Company's
25 Customer Service Areas' (CSA) level that should be allocated. In order to keep
26 the matter simple, only the obvious ratebase resources which are used during the
27 course of serving Non-regulated businesses should be considered.

28 DRA recommends the use of the same Allocation Rates that were
29 developed during the discussion for the Company's Cost Allocation Study in the

1 General Office. However, following methodologies were used by DRA for the
2 purpose of developing pertinent Cost Allocation Base for the cost allocations in
3 Region-II Headquarters, and related District Offices & CSAs:

4 **1. Cost Allocation Base---Expenses**

5 As discussed earlier that Region-II Headquarters functions as a big back-
6 office to support day-to-day operations in the two Districts and four of CSAs
7 located in the Region. In addition, DRA discovers that most of the O&M and
8 A&G expenses in the Region-II Headquarters are consisted of labor expenses, and
9 other expenses such as office supplies, and miscellaneous expenses that are
10 generally needed for the functioning of day-to-day operations of a typical back-
11 office. Therefore, all of the expenses within Region-II Headquarters provide a
12 reasonable Cost Allocation Base. DRA used its own estimations of these costs in
13 the amount of \$1,050,617 for the Test Year 2007, and the amount of \$1,065,441
14 for the Attrition year 2008. The discussion for these amounts can be found in the
15 Chapter-3 of the DRA staff report.

16 In the end, DRA recommends allocations in the amounts of \$99,250,
17 \$75,838, and \$76,908 for the year 2006, 2007 and 2008 respectively.

18 **2. Cost Allocation Base---Ratebase**

19 As the Company itself did not forecast Region-II Headquarters' weighted
20 average ratebase, and used the last year i.e. 2005 recorded ratebase, DRA believes
21 that this last year recorded Ratebase provides a reasonable base for cost allocation.
22 It should be noted that each year GSWC adds various capital expenses for related
23 capital projects to increase this weighted average ratebase in subsequent years.
24 DRA discovered that for the most part these capital projects also serve a general
25 purpose. Therefore, DRA recommends Region-II Headquarters last year recorded
26 ratebase in the amount of \$1,926,680 as the Cost Allocation Base for the years:
27 2006, 2007 and 2008.

1 In the end, DRA recommends allocations in the amounts of \$139,077 for
2 each year in 2006, 2007, and 2008.

3 **3. Ratebase Allocations in Related Region –II’s** 4 **Districts and CSAs**

5 As discussed earlier in this report, Company’s employees perform services
6 for at least four of the Non-regulated contracts within the Districts and CSAs
7 located under Region-II Headquarters. More specifically, the Company crew from
8 Central District, Southwest CSA, and Central Basin West CSA perform various
9 services under these four Non-regulated contacts.

10 As the field crew mostly charges their time directly to these contacts, there
11 is no need of O&M and A&G expense allocations. However, the crew uses
12 various ratebase resources that are general in nature such as computers, office
13 furniture, office buildings, water quality labs, and crew quarters etc. Therefore,
14 the value of such ratebase resources must also be allocated accordingly toward
15 these four Non-regulated contracts.

16 DRA used only the “General Plant Assets” located in the in Central District
17 Office, Central District-West CSA, Bissell Crew Quarters, and Southwest CSA as
18 a Cost Allocation Base. Because each of the four Non-regulated contracts requires
19 use of specific general plant assets, located in a specific operating area, the
20 ratebase allocations were calculated separately for each Non-regulated contract
21 using the Allocation Factors developed during the Cost Allocation Study and are
22 discussed previously in this report. DRA recommends an overall ratebase
23 allocation in the amount of \$106,221 per year for years: 2006, 2007, and 2008.

1 **CERTIFICATE OF SERVICE**

2
3 I hereby certify that I have this day served a copy of **REPORT ON THE**
4 **GENERAL OFFICE AND REGION II HEADQUATER OF GOLDEN**
5 **STATE WATER COMPANY FOR TEST YEAR 2007 AND ESCALATION**
6 **YEARS 2008 AND 2009** in **A.06-02-023** by using the following service:

7 ☒ **E-Mail Service:** sending the entire document as an attachment to an e-
8 mail message to all known parties of record to this proceeding who provided
9 electronic mail addresses.

10 ☐ **U.S. Mail Service:** mailing by first-class mail with postage prepaid to
11 all known parties of record who did not provide electronic mail addresses.

12 Executed on the 25th day of May, 2006 at San Francisco, California.
13
14

/s/ PERRINE D. SALARIOS
Perrine D. Salariosa

15
16
17
18 **N O T I C E**

19
20 Parties should notify the Process Office, Public
21 Utilities Commission, 505 Van Ness Avenue, Room
22 2000, San Francisco, CA 94102, of any change of
23 address and/or e-mail address to insure that they
24 continue to receive documents. You must indicate the
25 proceeding number on the service list on which your
26 name appears

27 * * * * *